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## Geopolitical Rivalry in the Caspian-Caucasus Region and the Dilemma of Interstate Cooperation

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GEOPOLITICAL RIVALRY IN THE CASPIAN-CAUCASUS REGION AND THE  
DILEMMA OF INTERSTATE COOPERATION

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## ABSTRACT

### GEOPOLITICAL RIVALRY IN THE CASPIAN-CAUCASUS REGION AND THE DILEMMA OF INTERSTATE COOPERATION

Nurettin Altundeger  
Old Dominion University, 2007  
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This dissertation develops a unique way of analyzing the interstate relationship in the Caspian region over the development of Caspian oil resources. Based on three different independent variables, this dissertation seeks to understand the main reasons behind the absence of interstate cooperation in the Caspian Sea region.

Among the variety of factors that might have affected the nature of interstate relationships and cooperation in the region, national interest considerations among the littoral states and external powers involved in the affairs of the Caspian Sea region proved to be the most important factor(s) that explain the lack of cooperation in developing the Caspian oil industry. While competition for influence and resources impeded the establishment of an environment conducive to interstate cooperation, the rise of military conflicts and widespread wars also contributed to the deterioration of the international environment for the development of the Caspian oil industry. The lack of effective international institutions and the failure of the Caspian states to come up with a regime or a system of governance that would normalize interstate relationships in the region further reduced chances for a smoothly functioning oil industry in the region.

Although the advances made—after more than a decade—in the development of oil industry and transportation systems stands as a success, the current level of

development hardly satisfies the littoral states and those of external powers as well as oil companies.



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## CHAPTER I

## INTRODUCTION: COOPERATION AND CONFLICT IN THE CAUCASUS

It has been more than a decade that the Caspian-Caucasus region has received considerable attention partly because of its vast oil resources.<sup>1</sup> Although the existence of the rich hydrocarbon resources has been known for centuries, the breakup of the Soviet Union and the emergence of independent states around the region sparked a big competition among the regional and great powers of the world for the exploitation of the petroleum reserves.<sup>2</sup> Major industrial countries including the United States saw it as an opportunity to diversify the importation of oil through the creation of multiple oil resources, so that the Middle Eastern monopoly and the potential for blackmailing problems would ease, if not disappear.<sup>3</sup> The intense struggle for the control of the resources in the Caspian region is often seen as a replay of the nineteenth century “Great Game” with the variation that the key players have changed.<sup>4</sup> Tsarist Russia was succeeded by the Soviet Empire in 1917 and then Russia after 1991, and the role of the British Empire was taken over by the United States. The twentieth-century version of the

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This Dissertation follows the format requirements of *The Chicago Manual of Style 14<sup>th</sup> Edition* by The University of Chicago Press.

<sup>1</sup> The Caspian Sea is an enclosed body of water roughly 700 miles from north to south and 250 miles across, lying directly between the states of Central Asia and the Transcaucasus. It is a salt-water body connected to the Black Sea by the Volga and Don rivers. After the collapse of the Soviet Union, the Caspian Sea is adjoined by five states; Azerbaijan, Kazakhstan, Turkmenistan, Iran and Russia. On the issue of rising importance of the region in the international arena, see Gennady Chufirin, ed., *The Security of the Caspian Sea Region* (New York, Oxford: Oxford University Press, 2001).

<sup>2</sup> Angeliki Spatharou, “Geopolitics of Caspian Oil: The Role of the Integration of the Caspian Region into World Economy in Maintaining Stability in the Caucasus,” in *The Politics of Caspian Oil*, ed., Bulent Gökay (Basingstoke: Palgrave, 2001), 20.

<sup>3</sup> By 2010, the Caspian could represent 3 percent of global oil output and 5 percent of non-OPEC production. “Opening the Caspian Oil Tap,” *Business Week*, 24 December 2001, 29.

<sup>4</sup> Michael P. Croissant and Bülent Aras, eds., *Oil and Geopolitics in the Caspian Sea Region* (Westport, CT: Praeger, 1999).

Great Game has a number of players, including Russia, Turkey, Iran and the West. Not only governments are involved, but foreign and multinational corporations as well.<sup>5</sup>

Former Soviet republics in the Caspian region were optimistic about future developments in terms of the extraction of the petroleum resources, such that these petroleum reserves could serve as a medium for prosperity and economic well being after long years of subordination and underdevelopment. Although at the beginning, all the states in one way or another related to the region and its oil reserves were optimistic about the exploitation of the vast resources and their transportation to the world oil markets, the new developments and discoveries, as well as the policies of littoral states and involved parties, proved that it was not as easy as it looked. Even they realized that the exploitation of the Caspian oil is far more complicated than anyone contemplated at the beginning.<sup>6</sup> The complexity of the region stems from the fact that the Caspian basin is one the most heterogeneous regions in the world in terms of ethnicity, language and culture.<sup>7</sup> The power vacuum after the erosion of Soviet power and unsettled disputes among the countries in the region further complicate the development of a stable military and political environment.<sup>8</sup>

Given the present politico-military environment in the Caspian basin, I will explore the underlying reasons for the lack of cooperation among the major players in the

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<sup>5</sup> Mehmet Dikkaya, "Türk Cumhuriyetleri Enerji Kaynakları: Yeni Büyük Oyunun Temel Dinamikleri," *Akademik Araştırmalar Dergisi* 1, no. 3 (November/December 1999).

<sup>6</sup> Gary K. Bertsch et al, *Crossroads and Conflict: Security and Foreign Policy in the Caucasus and Central Asia* (New York: Routledge, 2000).

<sup>7</sup> For more details on the social and cultural structure of the Caspian region, see Hrair R. Dekmejian and Hovann H. Simonian, *Troubled Waters: The Geopolitics of the Caspian Region* (London, New York: St. Martin's Press, 2001).

<sup>8</sup> Gökay, *The Politics of Caspian Oil*.



region.<sup>9</sup> Extraction and transportation of Caspian oil has the potential to provide economic development for the region and prosperity for the people, yet even after more than a decade, Caspian states could not develop and construct a viable physical and political environment for the development of the existing petroleum reserves. After gaining their independence, Caspian states have worked very hard to use the oil resources for their economic development.<sup>10</sup> Since they did not have the technical and financial resources to develop their reserves, Caspian states turned to the major oil companies for help. International oil companies also wanted to work with the regional states and get their share of the Caspian oil reserves. Despite a desire of both regional states and oil companies, the extraction and transportation of Caspian oil to world markets could not be achieved in the way they wanted.<sup>11</sup> In general, what we observe is a desire of regional states, western oil companies and the United States with respect to the extraction of Caspian oil and its transportation to the world markets. The main question I ask is: why have states not cooperated on the issue of developing Caspian oil despite the fact that regional states are willing to offer their oil resources in a speedy fashion to the world markets?

The finding of this work is that, despite the expectations of greater cooperation in the developing Caspian region oil, such cooperation did not come to pass. This raises an interesting question: why did cooperation fail when it could have benefited so many parties?

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<sup>9</sup> Major players in the Caspian Sea region include littoral states and some external powers that are involved in the affairs of the Caspian region. Among them are Russia, the United States, Turkey and international oil companies invested in the region.

<sup>10</sup> Faruk Arslan, "Azerbaycan Ekonomisinde Gecis Donemi," *Hazar Bilim sanat ve Kultur Dergisi* 1 (Spring 2000).

<sup>11</sup> Cynthia Croissant, *Azerbaijan, Oil and Geopolitics* (Commack, NY: Nova Science Publishers, 1998).

Among a number of factors that have affected developments in the region, the race for domination and control of the region seriously hampered prospects for cooperation. While each state pursued policies that would guarantee their superior status in the region, they also tried to prevent others from gaining power. Therefore the main focus in regional affairs shifted to achievement of a higher status rather than involvement in activities that would economically improve the region. The discussions over the legal status of the Caspian Sea, and the direction of the main export pipelines, simply reflected the choices of the states in terms of achieving and maintaining a superior status in the region.

Turmoil and instability in the region could also be considered factors that had a great impact on regional cooperation over the development of the Caspian Sea oil resources. The wars in the region not only depleted the national resources that could have been used for economic development, but also made it almost impossible for neighboring states to cooperate on other issues. The wars in Chechnya and Nagorno-Karabakh have directly and indirectly affected the prospects for cooperation among the Caspian states.

Lack of institutionalization has been considered as another important factor affecting the interstate relationship in the region. As neoliberals assume, institutions can have positive a impact on the achievement of cooperation among the states in international arena. Absence of an institutional arrangement and the inability of existing organizations in the region to contribute positively to the developments in the region have made the cooperation among the Caspian states less likely.

Having stated that cooperation in the region over the Caspian oil industry development has failed, we should indicate that there is a difference between achievement of cooperation in the region and the expectations prior to the start of the developments after 1991. At the very beginning, all parties were very optimistic about the future of the region and the possibility of oil development and the wealth that would accrue with the extraction of huge amounts of oil. Compared to expectations, the current level of cooperation among states could be labeled as a failure. However, partial success was achieved in several areas that have become important milestones in the Caspian oil development. The completion of Caspian Pipeline Consortium and Baku-Ceyhan pipeline could be categorized as important successes in terms of achieving interstate cooperation over Caspian oil development. The difference should be viewed from the perspective of expectations during the 1990s, and the current level of success. The improvements made in the Caspian oil industry were only achieved after almost two decades of interstate interaction and long and difficult negotiations.

## EXPLORING WHY COOPERATION HAS FAILED

We can hypothesize that cooperation in the Caspian region has been difficult because of the rivalry among the regional and external powers and competition over resources. The term “rivalry” is used here to explain the competition over the share/control of the natural resources. Geopolitical rivalry refers to the establishment of a zone of economic, political and military influence in the Transcaspian region. On the other hand, political rivalry is used to describe the disagreements among the internal and external players, which have prolonged the negotiations over the development of Caspian

oil industry. Rivalry also differs from conflict in the sense that it does not involve military confrontation or armed conflict. Actors inside and outside the region see the region as their sphere of influence. Increasing assertiveness of Russia within the Commonwealth of Independent States (CIS) sphere, and the role of the United States as an influential actor in the region and its desire to protect its interests, have created economic, political and geopolitical rivalry among the actors.<sup>12</sup> As Iran and Turkey joined in the game with their own policies and expectations as important players in the region, the situation in the region became more complicated with respect to the settlement of the issues among the players.<sup>13</sup> Within that framework, I will particularly focus on Turkey and Iran to identify their role and also their relationship vis-à-vis each other in the absence of cooperation in the region. Although we can identify major similarities between the policy objectives of these countries, some of the priorities and primary goals are totally different and most of the time, conflicting. Besides the external players, the choices and the inclinations of the littoral states also played their role in the big game and complicated the settlement of conflicting issues among the major actors.

The confusion over the legal status of the Caspian Sea and the persistent disagreement among the bordering states could be explained within the context of geopolitical rivalry and competition over resources that in the end present a great obstacle to the establishment of a fully developed regime, one that would set the rules for the use of the Caspian Sea and the exploitation of the resources among littoral states. The disagreements and the choices of the states with regard to the legal status of the Caspian Sea as a *lake* or a *sea*, reflect the political choices and economic interests of the littoral

<sup>12</sup> Suat İlhan, "Jeopolitik Gelismeler ve Turk Dunyasi," *Avrasya Etudleri* 2, no. 3 (Autumn 1995): 30.

<sup>13</sup> Bayram Sinkaya, "Turkey-Iran Geopolitical Competition over Central Asia and Caucasus: 1989–2001," *Middle East Technical University* (January 2004): 77.

states. The concepts of “delimitation” and “condominium” are used by different states to achieve their own objectives in the Caspian region. Delimitation suggests the division of the sea and sea shelves whereas condominium refers to the management of the whole Caspian Sea and its basin by the participation of the littoral states. Under condominium, each state technically would have equal voting power in the management of the Caspian Sea; however, powerful states are expected to exert more pressure on other states over the decisions to be made. For this reason, influential and dominant states such as Iran and Russia prefer condominium over delimitation, expecting that they could impose their orders in such an environment. The other less powerful states (Azerbaijan, Turkmenistan and Kazakhstan) favor delimitation of the Caspian Sea.<sup>14</sup>

The emergence of a Russian monopoly clearly jeopardizes regional development and distribution of wealth among the peoples of the region. When we talk about the distribution of wealth and the sharing of resources, we need to highlight the issue of pervasive ambiguity with regard to the management and control of the Caspian Sea and its oil resources. The absence of a clear regime and rules that would lay out the foundation for the use of the Caspian Sea area among the bordering states is currently one of the biggest problems in the region.

A relative absence of international institutions might be considered (though this remains to be explored) as a factor that affects the degree of cooperation among actors. One of the outcomes of the lack of institutional establishments could be the perpetuation of an environment in which actors choose to compete with each other rather than cooperate. International Relations (IR) theorists, especially institutionalists, argue that the

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<sup>14</sup> We must consider that the respective policies of the littoral states and the outsider powers have changed over time. The evolution of the policies of the states and the factors that caused the change will be explored in the coming chapters.

existence of international institutions could enhance the likelihood of international cooperation.<sup>15</sup> Although some countries of Caucasus and Central Asia belong to CIS, it should not be considered an institution where members play an equal role. CIS was established with Russian pressure, mainly to re-establish Russian influence over the region after the dissolution of the Soviet Empire. Management of the regional issues in fact becomes easier under an institutional framework, especially if the participation of the involved countries is important and consensus is necessary. The Organization of Petroleum Exporting Countries (OPEC) could be seen as an example in this context. Although institutions may not play much of a role in resolving issues immediately, their importance and contribution could increase over time, as can be seen in Europe and the number of organizations currently active in that continent. The absence of international institutions in the region is related to the fact that most countries in the region gained their independence just after the end of the Soviet Empire. Establishment of patterns of international relations and foreign policies could take some time in the region. Although the Caspian-Caucasus states are not expected to adapt to a new environment and develop institutions in a short period of time, establishment of some sort of institutions could help to develop friendly relations in coming years.

Another issue that could be analyzed within this context is the ambiguity pertaining to the legal status of the Caspian Sea as one of the factors that gave rise to the emergence of balance-of-power politics in the Caspian region. Since the interests of the littoral states on this issue do not coincide with each other, the rivalry over the control of resources paved way for the emergence of an alliance that created balance-of-power

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<sup>15</sup> See Oran R. Young, *International Cooperation : Building Regimes for Natural Resources and the Environment* (Ithaca: Cornell University Press, 1989).

politics, with Russia and Iran on one side and the other littoral states with the United States, Turkey and Western states on the other.<sup>16</sup> The rise of groupings among states could be construed as complicating the settlement of the existing issues in the region. One of the interesting aspects of the alliance between Russia and Iran is that Iran as a theocratic state chooses to stand by Russia rather than aligning with the other Islamic countries (Azerbaijan, Turkmenistan and Kazakhstan). As we know, Iran's stance in international politics is quite different since the Iranian Revolution. Iran considered religious themes as its guide in internal politics and foreign policy formulations. Resistance and fighting against the West have long dominated Iran's political agenda. However, recently we have noticed that there is a shift in Iranian politics such that they are no longer primarily guided by religious motives. The agreement between Russia and Iran is as much a reflection of their national interests as the alliance among the other littoral states.

Another aspect of the geopolitical rivalry and competition over resources is the issue of pipelines, which has been a major source of conflict and competition among the states that have interests over the transportation of the Caspian oil through their territory. The transportation of Caspian oil through pipelines is of utmost importance for the oil producers in the region (other than Russia and Iran, since they already have an established system for their reserves and their own transportation system). For Azerbaijan, Turkmenistan and Kazakhstan the only outlet for carrying their petroleum to consumers is the pipelines. The choices of the Caspian states and other external players are driven mostly by their own economic and political interests. However, feasibility of

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<sup>16</sup> Seen as a natural process in international relations, the alliances among the states have changed over time as their interests moved to other directions because of the new developments in the region.

the suggested routes, and their costs and safety, are very important for the construction and for the future transportation of the Caspian oil.

Second, other than the political and geopolitical rivalry as potential reasons for the lack of cooperation in the Caspian basin, wars and ethnic clashes have always been a serious source of instability and disturbance. The Caspian region is one of the most heterogeneous regions in the world, with multiple ethnic structures and highly complex formations. As Gökay mentions, “the Caspian-Caucasus is a region of complexities, rich in diversity of peoples, nations and language. Hardly anywhere can one find a territory of a comparable size as heterogeneous in terms of language, religion and culture.”<sup>17</sup> The cultural, religious and ethnic diversity is one of the greatest factors perpetuating instability in the region, causing internal as well as international wars. From the time of the establishment of independent states after the collapse of the Soviet regime, the region has witnessed bloody conflicts and suffered from both internal and interstate wars. The ongoing war between Russia and Chechnya, Azerbaijan and Armenia, and the internal clashes in Georgia, are examples of the potential for real conflict. More importantly, these conflicts have not been resolved among the actors despite the passage of years since their emergence.

In addition to the potential for conflict in the region, security and peace arrangements are so precarious that conflicts can be triggered by an outsider agent and can be used for political reasons. One of the greatest obstacles for the extraction of oil reserves and their utilization in the development of the economies of the regional countries could be the lack of political stability in the Caspian region. Establishment of a

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<sup>17</sup> Bulent Gökay, “The Background; History and Political Change,” in *The Politics of Caspian Oil* (New York: Palgrave, 2001), 1.



politically stable environment could help the development of friendly relationships among the countries of the Caspian region, which would contribute positively to the extraction and transportation of Caspian oil. Direct or indirect foreign investment requires a stable internal and international political system. In fact, foreign investment and financial support are essential to Azerbaijan, Turkmenistan and Kazakhstan, since these countries do not have the necessary resources to develop their energy reserves. Under the current politico-military environment, is it possible for them to establish a well-working economic and political system that will be conducive to the extraction and importation of the hydrocarbon resources?

The absence of democracy and rule of law in the Caspian states, and the nature of the domestic politics of the littoral states, could be seen as important factors in determining the nature of the interstate relationship in the Caspian region.<sup>18</sup> The absence of a rule of law and the lack of legitimacy on the part of the ruling elites, who could not gain public support, may have caused constant turmoil within this region. In addition, former Soviet republics do not have a democratic regime, and the absence of the rule of law is a fact of their governance. The regimes in these states are not quite stable. When we look just at the political change, for example, Azerbaijan, within one decade, had three different administrations whose successors brought new agendas and new priorities, and different ways of resolving their issues. Although these seem to be internal affairs of those states, they directly affect Western interests thorough hampering investments for the development of oil reserves. The continuation of existing problems hamper direct foreign investment from the oil countries and block international monetary aid for the

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<sup>18</sup> A quick glance at the information provided by the reports of the Freedom House reveal that the Caspian states have a long way to go in democratization and development of democratic institutions.

projects. The internal problems of these countries, and the political impotence and incompetence of their leaders, are among the problems that need to be solved for a smooth functioning of the oil industry and transportation of the oil to world markets.

The importance of oil in world politics is obvious. All industrial countries depend on the importation of oil from the Middle East and other producers. If we consider that the oil resources of the world are limited, no matter how big or small the resources are we can understand why countries attach so much importance to issues related to securing the flow of oil. It is in fact an issue of survival for many industrialized nations and their economies, including the United States, which is highly dependent on the importation of oil despite its known reserves.

#### COOPERATION IN THEORY

Exploring these problems is an important step to resolve them. In that sense, dealing with the issues that produce competition rather than cooperation is an essential step that could contribute to their settlement. Whether states inherently compete or cooperate with each other is an essential discussion in International Relations theory. The founder of Realist Theory, Hans Morgenthau, argues that states in the international arena cannot trust anyone but themselves. This is accepted as the governing rule in international relations that breeds hostility and war.<sup>19</sup> Morgenthau also argues that power politics and balance of power are the defining characteristics of international state order, which decreases the possibility of cooperation among states.<sup>20</sup> Power and national interest

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<sup>19</sup> Hans J. Morgenthau, *Politics among Nations; the Struggle for Power and Peace*, 4<sup>th</sup> ed. (New York: Knopf, 1967).

<sup>20</sup> The Neorealist scholars continue along the same line and argue that states operate within an anarchic international order where the basic understanding within that system is competition rather than cooperation.

are among the most important concepts in realist theory. Since states are like those of egoist individuals, conflicts and wars are inevitable.<sup>21</sup> While Realists/Neo-realists argue that states within an anarchic environment compete with each other, Institutionalists argue that this is not a universal phenomenon. Under certain circumstances, anarchy can be ameliorated and cooperation can be achieved.<sup>22</sup> Supporters of this idea argue that institutions can help states to come together and thereby increases the likelihood of cooperation among them.<sup>23</sup> While analyzing the causes of the lack of cooperation among internal and external powers in the Caspian region, I will be drawing on the theoretical discussions about state behavior and more specifically, on the concept of cooperation. While analyzing the reasons for the lack of cooperation among major players, I will refer to the thoughts developed by major IR schools.

First is the systemic approach of Neo-realism that focuses mainly on the systemic effects of anarchy on state behaviors. In the Caspian context, the rivalry among major

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Kenneth N. Waltz, *Theory of International Politics* (Reading, MA: Addison-Wesley, 1979). In addition, Waltz argues that states within an anarchic environment have to comply with the rules of anarchy and take precautions, otherwise they will be penalized by the system. Kenneth N. Waltz, "Anarchic Orders and Balance of Power," in *Neorealism and its Critics*, ed., Robert O. Keohane (New York: Columbia University Press, 1986).

<sup>21</sup> For a more insightful comparison of realist and Institutionalist approaches, see David Baldwin, ed., *Neorealism and Neoliberalism: The Contemporary Debate* (Columbia University Press, 1993); Helen Milner, "International Theories of Cooperation Among Nations: A Review Essay," *World Politics* 44, no. 3 (April 1992): 466–96.

<sup>22</sup> A prominent scholar, Robert Jervis, also argues that anarchy prevails in international relations; however, under certain circumstances systemic effects of anarchy can be ameliorated and cooperation could be achieved. Robert Jervis, "Cooperation under the Security Dilemma," *World Politics* 30, no. 2 (January 1978): 167–214.

<sup>23</sup> For more information on how institutions increase cooperation, see Robert O. Keohane, Joseph S. Nye and Stanley Hoffmann, eds., *After the Cold War: International Institutions and State Strategies in Europe, 1989–1991* (Cambridge, MA: Harvard University Press, 1993). See also Judith Goldstein and Robert O. Keohane, eds., *Ideas and Foreign Policy: Beliefs, Institutions, and Political Change* (Ithaca: Cornell University Press, 1993); Robert O. Keohane, ed., *Neorealism and its Critic* (New York: Columbia University Press, 1986); Robert Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton, 1984); Young, *International Cooperation*; Kenneth A. Oye, ed., *Cooperation under Anarchy* (Princeton, N.J: Princeton University Press, 1985); Robert O. Keohane, "International Institutions: Two Approaches," *International Studies Quarterly* 32, no. 4 (December 1988); Robert O. Keohane and Lisa Martin, "The Promise of Institutionalist Theory, Response to John J. Mearsheimer," *International Security* 20, no. 1 (Summer 1995).

players over the Caspian region, and the competition over the natural resources, could be explained through the basic premises of neo-realist assertions. The second school of thought on the concept of cooperation is the Institutionalist approach, which asserts the possibility of cooperation under institutional framework. The lack of institutional establishment in the region and subsequent competition could be analyzed within this framework.<sup>24</sup>

The importance of the study is to incorporate different IR theory approaches and to analyze the policies of the major players and the outcomes that are associated with it.

#### IMPORTANCE OF THE REGION

The Caspian Sea has been controlled by Russia and Iran for more than a century. Even at a time when nobody knew oil reserves existed in the region, the sea was of strategic and economic importance for the bordering countries. Through a mutual agreement with Iran, Russia had the right to maintain a naval force in the Caspian Sea and both states enjoyed economic activities, namely fishing. The extraction of oil in the Caspian region, especially in Azerbaijan, started around the 1870s–1880s. When the Bolsheviks came to power, there were 28 oil and gas reserves operated by Russia, with the help of foreign investors from Europe.<sup>25</sup> Most of the Russian wells drilled by those foreign investors were located in the Caspian Sea region. The Soviet oil industry worked well compared to the world standards during 1850s–1870s. However, over time the Soviet oil industry was unable to keep up with new developments in the oil extracting industry, and the incompetent Soviet administrations failed to use the resources

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<sup>24</sup> For a detailed comparison of Realist and Institutionalist perspectives, see John J. Mearsheimer, “The False Promise of International Institutions,” *International Security* 19, no. 3 (Winter 1994).

<sup>25</sup> Gökay, “The Background; History and Political Change,” 10.

efficiently. As Gökay put it, “the most pressing aspect of the petroleum industry in the Soviet Union in the late [18]80s was the fact that Soviet technology seriously lagged behind that of the West, the oil extraction technology was underdeveloped. Soviet drill pipes and bits were of such poor quality that the drilling process had to be stopped for repairs.”<sup>26</sup> In fact, the lack of progress and underdevelopment in the Soviet petroleum industry was the sign of a general slowdown in the Soviet socialist system. As the country lost its power to advance in different areas, the loss was reflected in the oil industry as well. This is one of the factors that made Russia weak in international competition over many issues. The point is, Russia still has the ambition to dominate the Caspian Sea region, but does not have the financial and technological resources to maintain its desired course of action.

Returning to the development of the issues in the Caspian Sea region, we may assert that the breakdown of the Soviet Empire started a new era and a new history for the littoral states of the Caspian Sea. The fall of the Soviet Empire was followed by the rise of newly independent states in the Caspian Sea region. The area once controlled by the Soviets and Iran now is controlled by five states: Azerbaijan, Turkmenistan, Kazakhstan, Iran and Russia.

Although the Soviet Empire has done some oil extraction in the Azerbaijani fields, most of the oil reserves remain untouched. The reason is that Russia is also among the main oil producers in the world, with its own oil reserves. The Soviet Empire did not depend on the Caspian oil because they could also drill for and transport their own oil to internal and international markets. One of the biggest problems with the Caspian oil is transporting it to world markets, due to its geographical location. After this brief

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<sup>26</sup> Ibid., 12.

introduction to the history of the development of the petroleum industry in the region, we turn now to the issue of the importance of Caspian oil in the world markets.

One of the first questions we ask is, is Caspian oil really important—in the sense that it would make a difference to the world's oil consumers in terms of pricing and reliance on multiple resources rather than relying only on the Middle Eastern petroleum.<sup>27</sup> The Caspian Sea is the largest non-OPEC oil source in the world. Development of oil industry and export in the region will definitely contribute to overall energy security in the world.<sup>28</sup> In fact, talking about oil and world politics is almost equivalent to talking about Middle East and the petroleum resources in the Middle East. However, the proven and estimated reserves in the Caspian Sea region have the potential to divert our attention from the Middle East to the Caspian Sea.<sup>29</sup> Estimates of proven and potential reserves throughout the whole region, except for Russia and Iran, add up to 190 billion barrels of petroleum.<sup>30</sup> Kazakhstan has more oil reserves than were estimated during the period of Soviet Empire. After Russia, Kazakhstan is the second richest in terms of oil among the Soviet republics, with its estimated and proven oil reserves between 95–101 billion (bn) barrels in addition to large gas resources. Azerbaijan also has large oil resources compared to its small territorial size: around 31–39bn barrels of estimated oil reserves with 35 trillion cubic feet (tcf) of natural gas. Turkmenistan is also among the countries with high natural gas and petroleum resources, estimated to be

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<sup>27</sup> Ismail Hakki Iscan, "Kuresel Degisimin Getirdigi Yeni Stratejilerle Enerji Guvenligi Sorunu ve Turkiye," *Avrasya Etudleri* 22 (2002): 112.

<sup>28</sup> Hearing before the United States Senate, Subcommittee on International Economic Policy, Export and Trade Promotion of the Committee on Foreign Relations, *U.S. Energy Security: Russia and the Caspian*, 30 April 2003, 4.

<sup>29</sup> Although we talk about the importance of the Caspian oil, it is no way comparable to the Middle Eastern oil reserves. The point here is that the Caspian oil reserves are also considerable when it comes to investment and future establishments.

<sup>30</sup> Mehdi Parvizi Amineh, *Towards the Control of Oil Resources in the Caspian Region* (New York: St. Martin's Press, 1999), 80.

around 34bn barrels of oil and 159tcf of natural gas, which makes it the third highest in the world. Russia and Iran are among the largest oil and natural gas suppliers. Russia ranks number one in terms of natural gas reserves and exports, with reserves of 1.700tcf. Russia is the 9<sup>th</sup> largest oil producer in the world, with 50bn barrels of reserves. The fifth country, Iran, ranks as the 2<sup>nd</sup> largest natural gas exporter in the world after Russia. Iran has about 10 percent of the world's oil resources, making it fifth in the world.<sup>31</sup>

Although we have said that the Caspian Sea region has a large volume of oil and natural gas reserves, other views suggest that the estimated reserves are exaggerated, and that the Caspian Sea region has less than the current statistics show.<sup>32</sup> (See tables 1 and 2.) Although the total oil reserves of the Caspian Sea region are far less than the reserves in the Middle East, their potential and extraction are important for several reasons.<sup>33</sup>

First, these reserves are important for the former republics and their economies. These reserves seem trivial compared to that of the total world reserves, but the existing oil resources in the Caspian Sea would be more than enough to develop the region economically and bring prosperity to its people.

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<sup>31</sup> United States Energy Information Administration. Available [Online]:<<http://www.eia.doe.gov/>> [2 February 2007]

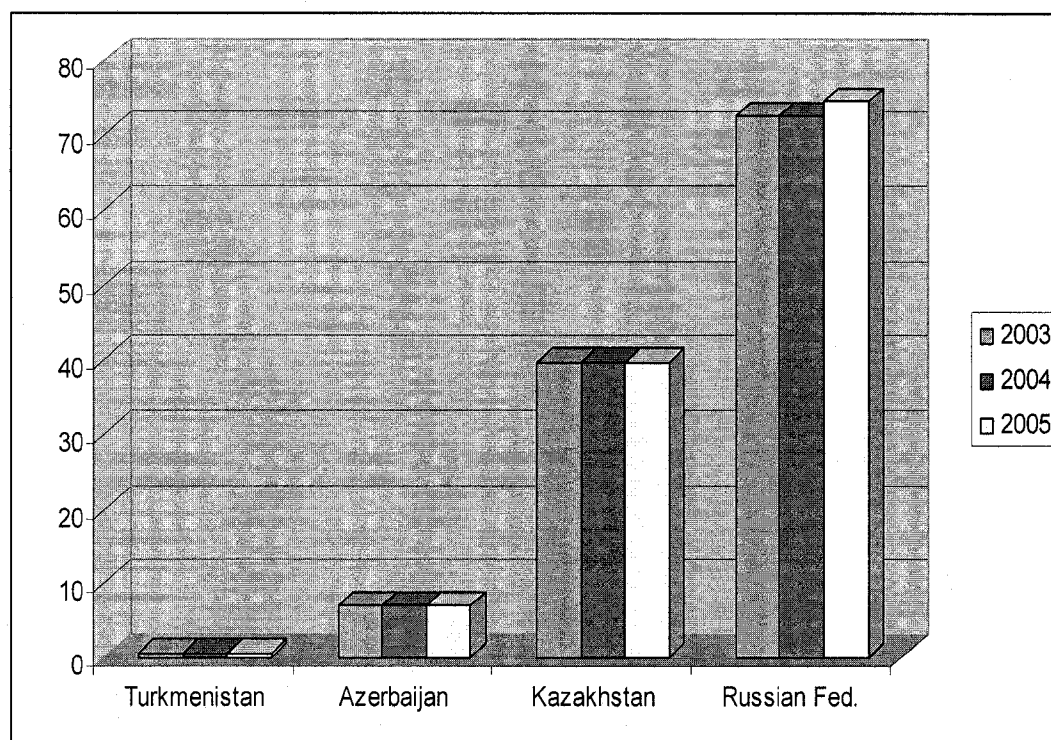
<sup>32</sup> *Anadolu Ajansi*, "Hazar Petrolu Soyrendigi Kadar Degil," 24 April 1998.

<sup>33</sup> Some experts on the region commented "the global strategic significance of the Caspian region with respect to energy resources pales in comparison to that of the Persian Gulf." Richard Sokolsky, and Tanya Charlick-Paley, *NATO and Caspian Security: A Mission too Far?* (Santa Monica, CA: RAND, 1999), 80.

Table 1:  
Proven Oil Reserves: Caspian Countries

|              | 1999  | 2000  | 2001  | 2002  | 2003  | 2004  | 2005  |
|--------------|-------|-------|-------|-------|-------|-------|-------|
| Russian Fed. | 59.22 | 59.62 | 63.21 | 68.48 | 72.46 | 72.44 | 74.44 |
| Turkmenistan | 0.55  | 0.55  | 0.55  | 0.55  | 0.55  | 0.55  | 0.55  |
| Kazakhstan   | 25.02 | 25.02 | 39.62 | 39.62 | 39.62 | 39.62 | 39.62 |
| Azerbaijan   | 7.0   | 6.9   | 7.0   | 7.0   | 7.0   | 7.0   | 7.0   |

Source: BP Statistical Review of World Energy 2006, Unit: In Billion barrels



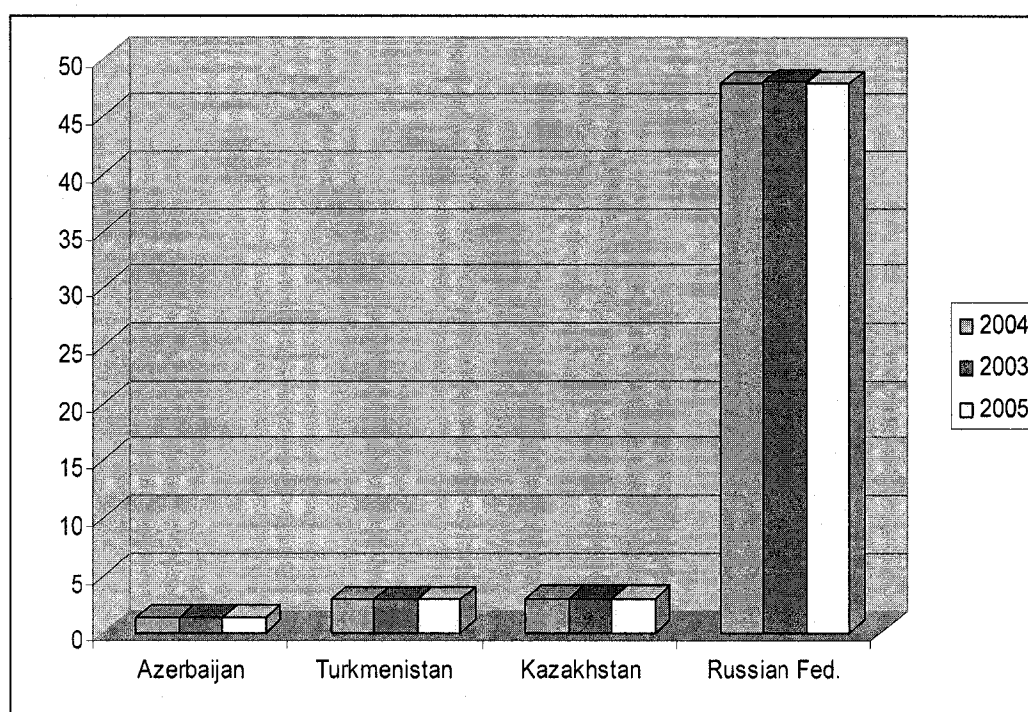
Graph 1: Proven Oil Reserves: Caspian Countries (View in 3D Graph)



Table 2:  
Proven Gas Reserves: Caspian Countries

|              | 1999 | 2000 | 2001 | 2002 | 2004 | 2003 | 2005  |
|--------------|------|------|------|------|------|------|-------|
| Russian Fed. | 46.9 | 46.7 | 46.8 | 47.0 | 47.8 | 48.0 | 47.82 |
| Turkmenistan | 2.85 | 2.86 | 2.9  | 2.9  | 2.9  | 2.9  | 2.9   |
| Kazakhstan   | 2.0  | 2.0  | 2.0  | 3.0  | 3.0  | 3.0  | 3.0   |
| Azerbaijan   | 1.37 | 1.37 | 1.37 | 1.37 | 1.37 | 1.37 | 1.37  |

Source: BP Statistical Review of World Energy 2006, Unit: In Trillion Cubic Meters



Graph 2: Proven Gas Reserves: Caspian Countries (*View in 3D Graph*)

It is also important to have multiple channels of oil production and extraction in the world, since the potential exists to reduce oil prices by eliminating the Middle Eastern monopoly. The importance of the Caspian oil also stems from the fact that it could reduce the oil importing countries' dependence on Middle Eastern petroleum, thereby decreasing the possibility of blackmail by the OPEC countries. The oil crisis of 1973 is a

great lesson for oil consumers, especially industrialized countries. Given that existing petroleum reserves in the world as a whole are limited and will come to an end in the future, regardless of the large Middle Eastern and other oil sources in the world, the world will need to utilize every possible resource, since life on earth is very much dependent on petroleum and its derivatives.<sup>34</sup> The estimated oil reserves in the Caspian region (around 200 billion barrels (bbl)) are far greater than Iraq, whose deposits of 113bbl rank second in the world after Saudi Arabia's 262 bbl.<sup>35</sup> See tables 1 and 2 for more accurate data on the proven oil and gas reserves in the Caspian region compared to optimistic estimates.

## METHODOLOGY

The dependent variable of this study is the lack of cooperation among major players in the Caspian Sea region, on the issue of Caspian oil. I intend to find the reasons behind the lack of cooperation and slow development of issues in the Caspian region as they relate to Caspian oil resources. In exploring the dependent variable, I will examine three major variables, as it is generally accepted that social events cannot be explained by a single variable. The overall picture may only be understood through the investigation of a set of variables. There could be a number of important variables at play at different times, with a varying degree of impact on the question asked. Since it is not feasible to

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<sup>34</sup> As of the year 2000, the planet is believed to have a total remaining oil reserve between 1250–1950 bbl. Looking at the total estimated Caspian oil of around 100 bbl, the importance of Caspian oil becomes clear. Nathan Perz, "The Caspian Basin and Shifting U.S. Policy in Central Asia: The Future of War for Oil," *Synthesis/Regeneration* (Spring 2003).

<sup>35</sup> The figures and numbers that have been presented here are subject to change as new explorations take place in the region. The main cause of the variations between numbers will be analyzed in the coming chapters, as it relates to one of the policies of the littoral states—that in order to attract foreign investment some people argue the numbers have been deliberately exaggerated.

consider all the possibilities and variables, this study will concentrate on the variables that are most important in explaining the central question.

In the following chapters, the level of cooperation and its impact on the overall development of the Caspian oil industry will be investigated with reference to:

- political/geopolitical rivalry among the players over regional influence and the control of oil resources in the Caspian Sea region;
- armed conflicts among the regional players and military confrontations; and
- the presence and effectiveness of international institutions.

*Definition of Cooperation: Cooperation or Conflict (A Theoretical Approach)*

There is agreement on the concept of cooperation by both neorealists and neoliberalists. According to Keohane, “cooperation occurs when actors adjust their behavior to the actual or anticipated preferences of others, through a process of policy coordination.”<sup>36</sup> The neorealist Joseph Grieco defines cooperation in a similar way: “international cooperation may be defined as the voluntary adjustment by states of their policies so that they manage their differences and reach some mutually beneficial outcome.”<sup>37</sup> Both definitions involve a certain level of goal-directed behavior. Second, they also imply that actors engaged in cooperation retrieve gains or rewards from it, although the gains received are not necessarily equal in size or kind, but must be achieved by each party.

The concept of cooperation is also regarded as “the opposite of competition or conflict both of which involve goal-seeking behavior that aims to reduce the gains

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<sup>36</sup> Robert Keohane, *After Hegemony*, 51–52.

<sup>37</sup> Joseph M. Grieco, *Cooperation Among Nations. Europe, America and Non Tariff Barriers to Trade* (Ithaca, London: Cornell University Press, 1990), 22.

available to others or restrain their want satisfaction.”<sup>38</sup> According to Keohane, “Cooperation is directly related to discord, and they must be understood together. Thus, to understand cooperation, one must also understand the frequent absence of, or failure of cooperation.”<sup>39</sup> This perspective suggests that without conflict or competition, there is no need for cooperation. However, cooperation or conflict should not be seen as the only alternatives to states’ behavior. Unilateral action, where some states could choose to follow without paying any attention to the impact on others, could also be a course of action outside the perimeters of cooperation and conflict. Therefore, cooperation should be understood in terms of policy adjustment to reach mutual gains. However, the main issue that needs to be dealt with is the likelihood of cooperation on the issue of Caspian oil and other related matters. Analyses of circumstances under which states are most likely to cooperate or compete give us more insight into understanding the concept of cooperation.

The first independent variable is the political/geopolitical rivalry among the players over the control of oil resources and regional influence in the Caspian Sea region. While geopolitical rivalry refers to the establishment of a zone of economic, political and military influence/control over the region, political rivalry refers to the disagreements among internal and external players, which also involves the states’ assertiveness over the policy choices that serve their interests. It also differs from conflict in the sense that rivalry does not involve military confrontation and armed conflict.

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<sup>38</sup> Helen Milner, *Interests, Institutions, and Information. Domestic Politics and International Relations* (Princeton, NJ: Princeton University Press, 1997), 7–8.

<sup>39</sup> Robert Keohane, “International Institutions: Two Approaches,” in *The International Political Economy and International Institutions*, vol. II, ed., Oran R. Young (Cheltenham: Elgar, 1996), 291.

Actors inside and outside the region see the region as their sphere of influence, which makes it hard to cooperate on issues such as oil. Geopolitical rivalry over resources could be analyzed under two different areas of study. The first area that characterizes the main dynamic of the subject is interstate rivalry over the legal status of the Caspian Sea. The second issue, which represents the core of the hypothesis, is the long-lasting controversy over the transportation of the Caspian oil and the construction of pipelines. By taking the issue of rivalry and competition as an independent variable, I intend to find out its impact on the level of cooperation—more specifically why states choose to compete over the control and extraction of Caspian oil—and how it affects the overall picture with respect to the development of Caspian oil. The analysis of geopolitical rivalry and competition over the economic resources in the Caspian basin will be investigated with reference to major IR schools of thought. In terms of methodology, a comparative approach with the incorporation of realist and institutionalist points of view will be adapted to investigate the impact of geopolitical rivalry and competition among players in the absence of cooperation over the utilization of the natural resources in the Caspian region. While the main focus of the analysis is on the central questions posed at the beginning, this part of the study provides some insights into the application of realist and institutionalist theories to the realities of the Caspian region. Realists assert that power politics, competition and anarchy are the main elements of interstate relationships. The analysis of the reasons and impact of the geopolitical rivalry in the Caspian basin would be a test for the general realist assumptions in a regional context. The same analysis applies to other schools of thought that will be used in this study, as an explanatory component of the main dynamics of the issues that will be laid

out in detail in the coming chapters. While the core of the study centers on the main research questions and answers, this section will also reveal some information about the applicability of an institutional approach and its explanatory power in individual contexts. Analysis of the states' policies and their respective choices over existing/potential issues will be used to determine the impact of differences and variations in the general level of cooperation.

The second independent variable is armed conflicts and military confrontations among the regional players. By analyzing the military confrontations and armed conflicts that have taken place in the transcaspian region, I intend to find out their impact on the level of development of Caspian oil resources. After the breakup of the Soviet Empire, the region witnessed bloody conflicts and wars. These deep-rooted conflicts and military confrontations caused political and economic instability in the region. It is an accepted premise that economic developments and business activities need a stable environment to grow. The war between Azerbaijan and Armenia, ethnic conflicts in Georgia and Chechnya, and the mistrust between Azerbaijan and Iran are conflicts that have the potential to disrupt any major economic enterprise in the region, and in the end may pose an obstacle to the development of Caspian oil and other projects related to its exploitation.

The third independent variable that will be employed is the level of institutionalization and the lack and ineffectiveness of institutional arrangements in the region, and its impact on the level of cooperation among states. In using that as an independent variable, I intend to measure the impact of the level of institutionalization on cooperation among states, and to find out how the absence of institutional arrangements

affects the development of the Caspian oil industry. Within the same framework, regime analysis will be used to supplement the main discussions centered around institutional establishments. As is the case with institutions, regimes are also said to be an important factor in the achievement of interstate cooperation. Regimes are generally accepted to set ground rules that help the emergence of interstate cooperation. The institutionalist school argues that cooperation among states is easier under an institutional framework. Neo-realists disagree, asserting that international institutions rarely contribute to political stability and do not have any major influence on issues of war and peace; therefore institutions do not have a considerable impact on the level of cooperation among states.<sup>40</sup> In this framework, existing institutions and organizations among the Caspian states and external players will be studied. The number of operating institutions and their influence over the political and economic issues will be investigated.

In exploring these independent variables, I expect to explain the reasons for the lack of cooperation among internal and external actors and the slow development of issues in the Caspian Sea region. I will use primary and secondary sources in my analysis of the relationship between dependent and independent variables. In my study, I will use Turkish materials on the issue of Caspian oil and the Caspian region to enrich my research, bring additional perspectives, and to learn the role of Turkey in the greater picture. In addition, I will utilize books published on different aspects of the Caspian region/oil and ongoing events. In order to analyze the stages of developments and initiatives that are related to the central question of this work, I will use newspapers, journals, primary writings and speeches of leaders as well as other relevant sources of

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<sup>40</sup> For a detailed neo-realist perspective see Mearsheimer, "The False Promise of International Institutions." See also *International Security* 20, no. 1 (Summer 1995) for follow-up discussions with counter arguments from contending schools of thought.

information. I will also use information from Internet websites that specifically document the developments in the region and publish articles on different aspects of Caspian oil and the Caspian states. Among electronic resources that I will use are the foreign broadcasts and newspapers as translated by the Foreign Broadcast Information Service (FBIS), Radio Free Europe/Radio Liberty, Caspian Business Report, Caspian Oil and Gas, Caspian Oil Industry News, Oil and Gas Journal and Caspian World. Some Turkish resources that are worth mentioning here are the *Zaman Gazetesi*—which has excellent coverage of Turkey—and the Central Asian World, both of which are available in Print at Old Dominion University library and online. Among other Turkish resources are: *Milliyet Gazetesi*, *Ayin Tarihi* (which has a wide array of Turkish and Turkic world accounts), and *Avrasya Etudleri*, an academic journal in Turkish that covers the developments in Central Asia and Caucasus from a variety of viewpoints.



Figure 1: The Caucasus and Central Asia



Source: University of Texas at Austin, Perry-Castañeda Library Map Collection

## CHAPTER II

### HISTORY OF OIL DEVELOPMENT IN THE CASPIAN BASIN

The region around the Caspian Sea has been a focal point since the early times in history. As an area that has been inhabited by many cultures and civilizations, the region has become an arena for competing imperial forces.<sup>1</sup> The region has attracted many people from all around the world because of its natural resources. In addition to the resources that attracted people to the region, the Caspian Sea and the surrounding area became a passage between from northern and eastern Europe to East Asia. In this chapter, I discuss the history of oil development in the Caspian Sea region as it relates to the current developments and interstate relationships. In order to understand today's socio-political environment in the Caspian region, we need to look at the historical developments in the region. Some of the issues that the Caspian states face today are directly and indirectly related to the interstate relationship dating back to the times of early oil discoveries.

There is a longstanding connection between the Caspian region and oil. "Knowledge about the existence of oil—white and black—and of natural gas dates back to antiquity."<sup>2</sup> There are reports of Caspian oil as early as the sixth century BC. Zarathustra (Zoroaster) was said to have traveled to see the fires with his own eyes. The ancient literature of Greece and Rome contains many references to the oil and gas of the Baku area. Herodotus complained in 450 BC about the evil smoke of the Persian oil and

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<sup>1</sup> Archeological evidences reveal traces of human settlements in the South Caspian that date back to the prehistoric times. Shirin Akiner, ed., *The Caspian: Politics, Energy and Security* (London: RoutledgeCurzon-Taylor Francis Group, 2004), 3.

<sup>2</sup> Hooshang Amirahmadi, ed., *The Caspian Region at a Crossroad: Challenges of a New Frontier of Energy and Development* (Palgrave Macmillan, 2000), 89.

described the production of oil and salt from springs and wells.<sup>3</sup> Heating by the use of natural gas was a common feature in Baku during the times of the Sassanids who ruled Azerbaijan in the fifth century.<sup>4</sup>

In the thirteenth century, Italian traveler Marco Polo passed through northern Persia and wrote that “on the edge of Armenia in the direction of Georgia there is said to be a fountain from which oil spurts in voluptuous quantities, so much that one could fill a hundred shiploads at the same time with them. This oil is unfit for consumption, but it burns in an excellent way and moreover serves as a remedy against camels’ scabies. Folks from remote areas come here to fetch this oil, since in none of the surrounding lands oil of this caliber can be found.”<sup>5</sup>

Despite the fact that we have numerous reports and sources that talk about the Caspian oil and the wells in Baku, the export of oil and its use in trade was not completely known. What we know for sure is that hand-dug wells produced limited oil and it was used for medicinal purposes, cooking, heating houses and lighting in the homes. There are, however, reports of Caspian oil and its use in trade after the seventeenth century, especially the oil wells in Baku and the prospering life in the city.<sup>6</sup> It is interesting, however, that the real importance of the oil was not fully understood until it was discovered that oil could be used as a fuel for transportation. After that

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<sup>3</sup> Michael P. Croissant and Bülent Aras, eds., *Oil and Geopolitics in the Caspian Sea Region* (Westport, CT: Praeger, 1999), 3.

<sup>4</sup> In terms of trade, both asphalt and lamb oil from Apsheron (the peninsula on the southern shore of which Baku is situated) must have been widely used in the region through the Middle Ages. According to most sources, this was the main source of Byzantines’ fuel supply, which was used among other utilities, to heat the bathhouses of Constantinople and as ammunition for land and maritime flame-throwers. “Caspian Oil and Gas: The Supply Potential of Central Asia and Transcaucasia,” *International Energy Agency* (Paris: The Agency, 1998), 30–31.

<sup>5</sup> Ibid., 34.

<sup>6</sup> Gökay, *The Politics of Caspian Oil*, 3.

realization, heavy competition started between the people and the nations over control of the oil reserves.<sup>7</sup>

## RUSSIAN CONTROL OF THE REGION

In 1723, Tsar Peter the Great annexed parts of the Persian controlled eastern Transcaucasia, including Baku. Although the existence of oil and gas was known at that time, the extraction and use of oil was not a highly popular industry, since the oil wells of Baku were too isolated from world oil markets. After the annexation of Baku Peter the Great, who knew the importance of oil, started drawing up plans for Russia to acquire white oil. Although the Russian plans to use Caucasian oil ceased after the death of the tsar, control of the region was completed after the defeat of Baku Khanate. The treaty of Gulistan in 1813, between Russia and Persia, marked a turning point in the history of Caspian oil, as the monopoly rights of Khan to extract and use the oil passed to the Russian government.<sup>8</sup>

At the beginning of the Russian period “there were eighty two wells in Baku and the other oil springs along the eastern shore. On Cheleken Island in the Caspian Sea, oil was obtained from about 3500 pits and seepages in 1838. The product was used for lighting and as a substitute for tallow ... the annual production of Baku oil was reported in 1843 as 3.4 million kg (28,000 barrels) of (black naphtha) and 14.143 kg (106 barrels) of (white naphtha).”<sup>9</sup> During the initial years of Russian control, the oil wells of Baku contracted to private entrepreneurs for four years period for 13,000 pounds. Because of the length of the lease term, entrepreneurs did not have the incentive to invest heavily in

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<sup>7</sup> “Caspian Oil and Gas,” 41.

<sup>8</sup> Amirahmadi, *The Caspian Region at a Crossroads*, 91.

<sup>9</sup> Croissant and Aras, *Oil and Geopolitics in the Caspian Sea Region*, 6.

the extraction of oil and development of the areas, which in the end led to poor use of available resources. The contractors tried to get the most out of the wells but invested very little because of the four-year lease system. The Russian government suspended the lease system in 1825 and started extracting Baku oil on its own. Because of the primitive methods of oil extraction, oil production remained low and in 1850, the government once again switched to a contractor system. After 1872, the Russian government introduced a single contractor system to attract companies and individuals with substantial capital. The term of the lease increased to 24 years, and the highest bidder would run the oil wells of Baku. With a combination of public auction and a royalty system, the new system continued until 1917.

#### THE FIRST OIL BOOM

With the new system in place, two factors that contributed to the development of the Caspian oil industry were the acquisition of new drilling technology and increasing global demand for oil. Abolition of the state monopoly worked in favor of Caspian oil development. Production increased by 10 percent between 1871 and 1872, and doubled the next year. By the end of the nineteenth century, the Caspian oil production rose 165-fold.<sup>10</sup> Along with the systemic and technological developments, there were major oil discoveries around Baku, in Balakhany, Surakhan, Sabunchy and Zabrot. Russia became the world's largest oil-producing country in 1898 and held that position until 1902. The peak year was 1901, during which half of the world's petroleum came from about 1900 wells in the Caucasus, from an area of less than six square miles. The oil fields of Baku

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<sup>10</sup> Amirahmadi, *The Caspian Region at a Crossroad*, 91.

district on the Aspheron Peninsula, the great Bibi Eibat, Balakhany and Sabunchy Ramany fields, supplied 95 percent of the total production.<sup>11</sup>

In describing the successful development of the Caspian oil industry under Russian control, the contributions of several individuals were important in pushing the oil industry forward. The transcaspian company of Kokorev and Gubonin was responsible for the construction of the first factory for acquiring paraffin and kerosene in 1859. The construction of oil distillation machines by Jasad Malikov in 1863 increased the oil distillation installments in Baku by 1873.<sup>12</sup> Reports written by the famous Russian chemist Dimitri Mendelyev also contributed to the abolition of state monopoly after his visits to the United States. This proved to be an important step in the development of the Russian oil industry in the Caspian region. The creation of the Baku Oil Producers Society after three oil conferences in 1884, 1885 and 1886 was also an important achievement in the Caspian oil industry's development, as this society became a stabilizing factor for the smooth functioning of the Caspian oil industry.<sup>13</sup>

As the oil industry developed, it also transformed the region around it into a wealthy town. "In the mid-nineteenth century the city covered some 60 hectares and had

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<sup>11</sup> Gökay, *The Politics of Caspian Oil*, 6

<sup>12</sup> Croissant and Aras, *Oil and Geopolitics in the Caspian Sea Region*, 7.

<sup>13</sup> "The organizational skills of the Baku Oil Producers Society helped foster a more confident attitude in the Russian oil industry. The creation of the "Statistical Office" in 1889 was one of the main achievements of the society. This contributed significantly to the rationalizing of the oil industry in Russia. Prior to this date, exact statistical data was hard to obtain, and was based as much on estimates as hard information. After 1889, the growth of the Russian oil industry and its expansion could be mapped in detail. The society also contributed to the social and cultural development of Baku, financing the construction of schools, roads, a pharmacy, a hospital and also funding teachers, doctors, nurses and office stuff." Croissant and Aras, *Oil and Geopolitics in the Caspian Sea Region*, 8.

a population of around 13,000. By 1907/8, it encompassed an area of 1,100 hectares and had a population of 248,300.”<sup>14</sup>

### *Russian Oil Industry and the Role of Foreign Entrepreneurs*

The abolition of the state monopoly began an era of competitive private enterprise, which caused an explosion of entrepreneurship. As the new drilling technology was brought in, there were more than twenty small refineries in Baku in 1873.

Two of the most important foreign figures in the history of Caspian oil were the Nobel brothers, who arrived in Baku shortly after 1873. The Nobel family immigrated to Russia from Sweden, and was involved in the production of artillery, cannons, and underwater mines for the Russian army. Ludwig Nobel continued the legacy of his father and acquired a huge contract from Russian government to manufacture rifles. He sent his eldest brother Robert to Baku to investigate the use of wood from walnut trees in the Caspian region. Upon his arrival in Baku, Robert was caught up in the fever of the Black Town and without consulting his brother he bought a small refinery for the money he was given to buy walnut wood. With additional funds from his brother, Robert quickly modernized the refinery. In a very short time he became the most successful oil businessman in the town. In 1876, Ludwig Nobel himself came to Baku. As a successful businessman in Petersburg, and with his high-level connections in the Russian government, Ludwig Nobel became the oil king of Baku in a very short time.

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<sup>14</sup> Akiner, *The Caspian*, 5. She also adds that the city life owes a great deal to the wealth that came from oil money which also transformed the intellectual life in the city. “It was an extraordinary fusion of old and new, of East and West ... in 1873, the first national theatre was opened and, in 1894 the first public library. The First Azerbaijani opera was performed in 1908. Educational establishments offered different types of instruction and a variety of fields of study (traditional, European, secular, religious and various combination of these spheres), while learned societies debated philosophical, social and political topics. Civil institutions were developed, including trade and professional organizations, such as the Producers Association for the oil industry.” Ibid., 5–6.

Transportation of the oil was the weakest link in the Baku oil industry. Most of the oil was carried in wooden barrels by boats to Astrakhan and transferred to barges for a long journey over the Volga River. In 1878, the Nobel brothers' company introduced the first tanker, *Zoroaster*, which was followed by many other ships. In addition to these developments, the establishment of pipelines from oil wells to refineries cut the cost of oil production by 50 percent and made the brothers' oil company highly competitive. By 1883 the Nobel brothers provided over 50 percent of the kerosene to Russia.<sup>15</sup> This was a great success for them and an important development for the Caspian oil industry.<sup>16</sup>

As production increased, the Nobel brothers were forced to seek out new markets. Transportation of Caspian oil presented serious challenges, as it was easier to get American kerosene to some parts of Russia from 8,000 miles away than to get Caspian kerosene from 340 miles away. Nonetheless, "during the next twenty five years, the Nobel industry drilled more than 500 wells, employed as many as 12000 men in their petroleum business and produced about 150 million barrels of petroleum."<sup>17</sup> As the company of the Nobel brothers produced half of the Russian kerosene, they told their stockholders that they pushed American kerosene out of the Russian market.

While the Nobel brothers contributed greatly to the expansion and development of Caspian oil, Rothschilds was the second company to engage in the oil business that helped to advance the industry. In 1883, a loan from Rothschilds to the Baku-Batum railroad almost entirely changed the oil business, as it opened a door to outside world markets, especially Europe. The project was carried out by two producers (Bunge and

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<sup>15</sup> Amirahmadi, *The Caspian Region at a Crossroads*, 94.

<sup>16</sup> The rapid development of Ludwig Nobel's oil empire in the first ten years of its existence has been described as one of the greatest triumphs of business enterprise in the 19<sup>th</sup> century. Daniel Yergin, *The Prize: The Epic Quest for Oil, Money, and Power* (New York: Simon and Schuster, 1990), 59.

<sup>17</sup> Croissant and Aras, *Oil and Geopolitics in the Caspian Sea Region*, 9.



Palashkovsky), but was interrupted by the war between Russia and the Ottomans. With the involvement of Rothschilds in the project, they became the second largest company in the Caspian region after the establishment of the Caspian and Black Sea Petroleum Company—known as Brito for its Russian initials—in 1883.<sup>18</sup> In addition to these foreign involvements, two British oil companies participated in the Caspian oil industry and drilled the largest oil wells outside of Baku in Groznyy in 1883. By 1910 the oil production from those wells reached 8.8 million barrels.<sup>19</sup>

Russian oil production steadily increased with the help of foreign companies and was able to compete with American oil in the world oil markets. In 1911, fields in Kazakhstan, on the other side of the Caspian Sea, were developed, while Turkmen oil production started in 1900 in the Chelecken field. Some small fields in Fergana Valley in Uzbekistan came into operation in 1885.<sup>20</sup> Up until World War I, a large, well-managed, well-financed oil industry was in place in the Caspian Sea region. When the war broke out, the oil industry in the Caspian Sea was moving forward in an orderly fashion.

### *Soviet Period: Caspian Oil*

World War I and the Russian revolution had a great impact on the world's oil industry and also the Caspian region. The stability that existed in the region and in the Caspian oil industry was deeply shaken by the developments after World War I and the Bolshevik revolution. After long battles between Russian, Turkish-Ottoman, British and Azeri armies, on April 28, the Red Army advanced to the outskirts of Baku and the Azeri

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<sup>18</sup> In 1911, Royal Dutch-Shell Company bought Rothschilds Brito and became the second largest company in the region.

<sup>19</sup> Edgar Wesley Owen, *Trek of the Oil Finders: A History of Exploration for Petroleum* (Tulsa: American Association for Petroleum Geologists, 1975), 262.

<sup>20</sup> Dekmejian and Simonian, *Troubled Waters*, 17.

government fell under the Red Army's pressure.<sup>21</sup> On May 4, the Bolsheviks captured and confiscated the last oil property in Baku, and the entire oil industry and oil production fell into the hands of the Soviets.<sup>22</sup> The Soviets confiscated all the private holdings and by a decree by Lenin himself, all the oil industry in the Soviet-controlled territory was nationalized.<sup>23</sup> Despite heavy government control of the Caspian oil and the Soviet oil industry, during the years of NEP (New Economic Policy) Lenin kept the doors open for foreign companies in order to acquire western capital and technology. The Soviets negotiated with Royal Dutch-Shell over the operation and development of the oil industry in Azerbaijan; however, the negotiations and open-door policies ended with Stalin's arrival in Politburo.

In the Soviet Empire in the following decades, intensive social engineering was implemented to sovietize the republics. The imposition of a centrally planned economy with a strong regional specialization left Azerbaijan as one of the leading centers of oil production in the Soviet Union.<sup>24</sup> Up until World War II, the Baku petroleum industry maintained its dominant position. Sixty percent of Soviet petroleum needs in 1931, and 80 percent in 1940, were supplied by the Baku fields. Gradually however, a decline set in, perhaps due to the Soviet decision to invest in strategically safer fields in Ural-Volga

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<sup>21</sup> Complete chaos and disorder dominated the Caspian region during the years of 1918–21. After Azerbaijan, Armenia and Georgia declared their independence, the Ottoman army entered Baku. As the Ottomans were under pressure in almost all the flanks, the city was captured by the British troops. For a brief period, the British tried to keep the city and the oil industry under control by imposing martial law. In order to maintain the export of Baku oil, the British also established military control over the Baku-Batumi railway and the seaport on the Black Sea.

<sup>22</sup> Jamil Hasanov, "The Struggle for Azerbaijani Oil at the End of the World War I," *Caspian Crossroads Magazine* 2, no. 4 (Spring 1997).

<sup>23</sup> Charles Van Der Leeuw, *Oil and Gas in the Caucasus and Caspian: A History* (New York: St. Martin's Press, 2000), 95.

<sup>24</sup> Akiner, *The Caspian*, 7.

and Western Siberia.<sup>25</sup> Especially after the German attempt to control the Caspian oil during World War II, the Soviet government realized that it would be much safer to open up new sites that were more difficult for foreign access and annexation.<sup>26</sup> In fact, after the death of Lenin, the West did not have a serious involvement in the entire Soviet land. However, some argued that “the Soviet regime deliberately prevented the Caspian energy resources from being developed, and deprived Azerbaijan, Kazakhstan, Turkmenistan of the opportunity to reach for substantially higher standards of living.”<sup>27</sup> Until World War II, Russian oil production increased due to the investment in oil drilling technology and the high level of importance attached to the oil industry by the Soviet administration.

After World War II, the Soviet oil industry’s attention shifted to other oil reserves in the empire. As the drilling in some parts of Ukraine, Siberia and the Volga-Ural area produced huge amounts of oil reserves, Caspian oil production declined in both volume and importance. During the five-year plans of the Soviet administration, the oil industry advanced in many areas, especially in the area of drilling and employment of new technologies by Soviet geologists and geophysicists. After the death of Stalin in 1953, as production increased and surpassed domestic usage, the Soviet government began exporting oil to Europe.

Throughout the 1960s and 1970s, Russian oil production increased greatly; however, Russian oil technology remained behind that of the West. The Russian oil industry experienced serious problems in all areas, e.g. drilling technology, pipes,

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<sup>25</sup> Robert E. Ebel, “The History and Politics of Chechen Oil,” *Caspian Crossroads* 1, no. 1 (Winter 1995): 9–11.

<sup>26</sup> In 1942, German forces under Hitler’s command mounted operation “Edelweiss” in an attempt to seize control of the Caucasian oilfields. However, in the mid-1940s they were stopped at Stalingrad by the Red Army. Akiner, *The Caspian*, 8.

<sup>27</sup> Robert V. Bolersky, “Russia, the West and the Caspian Energy Hub,” *Middle East Journal* 49, no. 2 (Spring 1995): 218.

storage, etc. One major issue was the fact that Soviet oil technology was almost 25 years behind American and Western oil technology. This caused inefficient extraction and refining of the oil, and the pipelines could not handle the high volume of oil being transported. Despite the existing problems, the reason that the Soviets produced such great amounts of oil was the availability of vast reserves in the Soviet land. However, as the cost of oil production increased due to the inefficiency in all areas of the oil industry, the Soviets had difficulty competing with American and European oil companies in the world oil markets, despite the huge amounts of oil production.<sup>28</sup> By the mid-1980s, the Russian Federation had taken a comfortable lead in the combined Soviet Union oil export capacity. In 1987 it produced 569 million tons of an all-union output of 624 million tons, but the cost was so high that it was struggling to compete on the world market. In fact, it was not the only sector in the Soviet Union that was having serious problems; the whole Soviet economy was under distress because of numerous fundamental problems related to the social economy of the Soviet communist system. As with the general decline in the Soviet economy, oil production also declined all over the Soviet Union, including the transcaspiian region.<sup>29</sup>

As the Soviet Union moved toward disintegration, in 1991, the last year of the Union, "Azerbaijan's oil production stood at 234,000 barrels per day (b/d), Kazakhstan's at 532,000 b/d, Turkmenistan at 108,000 b/d and Uzbekistan at 57,000 b/d. Russian production in the north Caucasus area adjacent to the Caspian was 134,000 b/d. These numbers added up represented some 10 percent of total Soviet oil production and a

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<sup>28</sup> Van Der Leeuw, *Oil and Gas in the Caucasus and Caspian*, 116.

<sup>29</sup> As a result of steady depletion of the oil fields through overexploitation and underinvestment in exploration efforts, the petroleum industry was in decline. Economists both inside and outside the Soviet Union agreed that there was enormous room for improvement. Gökay, *The Politics of Caspian Oil*, 15.

modest 1.64 percent of world oil production. Of a total Soviet gas production of 642 billion cubic meters (bcm) in 1991, 147.3 bcm came from Caspian riparian and adjacent regions with the following distribution: 84.3 bcm for Turkmenistan, 41.9 bcm for Uzbekistan, 8bcm for Azerbaijan, 7.9 bcm for Kazakhstan, and 5.9 bcm for North Caucasus. The contribution of Caspian area to world gas production was 7 percent, much higher than the Caspian's share of the world oil output."<sup>30</sup>

## DEVELOPMENT OF CASPIAN OIL

The interest in the Caspian region and Caspian oil steadily increased, especially after the collapse of the Soviet Union. First among the actors that have shown strong and continued interest in the region and oil are the governments of the littoral states, who considered Caspian oil an important tool for economic recovery and future prosperity. Second, politicians from OECD countries wanted to see the development of Caspian oil as an alternate source for energy security. The third group to show interest in the Caspian oil was the Russian oil industry, which wanted to recoup the expenses that they poured into the development of Caspian oil. Russian politicians also continuously monitored and actively engaged in the developments regarding Caspian oil. They considered the growing Western presence as a geopolitical threat to Russian interests in the region. The fifth and last group is made up of Western oil companies seeking to acquire major petroleum contracts in the Caspian.<sup>31</sup>

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<sup>30</sup> Dekmejian and Simonian, *Troubled Waters*, 17–18.

<sup>31</sup> Ottar Skegan, "Survey of Caspian's Oil and Gas Resources," in *The Caspian Region at a Crossroad: Challenges of a New Frontier of Energy and Development*, ed. Hooshang Amirahmadi (New York: St. Martin's Press, 2000), 56.

Energy development in the Caspian Sea region has progressed through different and distinct phases following the independence of the Soviet republics of the Caspian region.

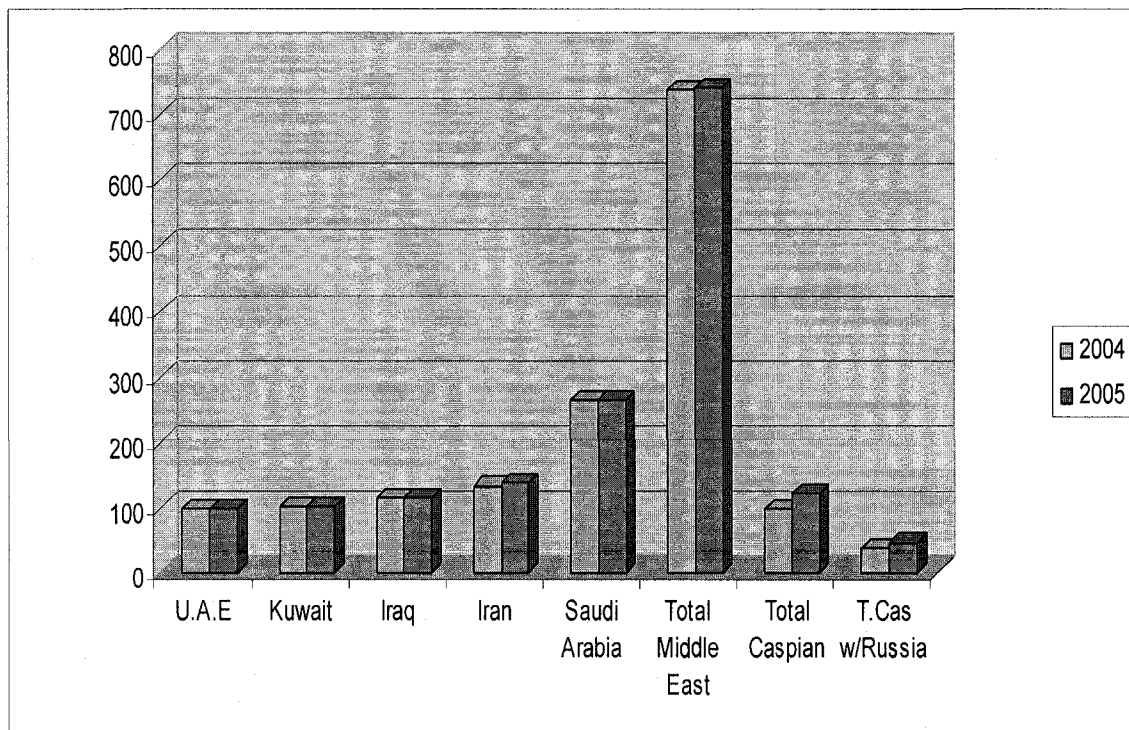
The first years of independence between 1992 and 1996 were considered rough times for energy development in the Caspian region. Hostility, misunderstanding and pessimism prevailed in the business as well as in political circles. The Western oil companies had to face the legacy of Soviet business culture in the Caspian states and opposition from Russian government and oil industry. However, progress has been made in some areas and some Production Sharing Agreements (PSA) and Joint Ventures (JV) have been signed. Although difficult and slow during the first years of these agreements, the PSAs and the JVs from these years proved to be major milestones of the Caspian oil development.

The second phase of the developments, between 1996 and 1998, was symbolized by a high level of optimism, and Caspian oil became a popular subject among the circles of oil business professionals and regional governments. Expectations were high during these years, and the Caspian oil in some circles was presented on a par with Middle Eastern oil and from time to time with Kuwait or United Arab Emirates.<sup>32</sup> (See graph 3 below.) However, as the studies and explorations continued and more accurate data have been gathered, the rosy picture portrayed especially by the governments of the Caspian states, started to fade as the challenges for Caspian oil development became more and more apparent. After 1999, a more sensible approach took place with more and more

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<sup>32</sup> Anthony Hyman, "Kuwait by the Caspian," *The Middle East*, no. 238 (October 1994); Lorie Laird, "Is Kazakhstan the New Kuwait?" *Europe*, no. 341 (November 1994); Hans Nijenhuis, "Azerbaijan: Kuwait of the Caucasus," *World Press Review* 42, no. 1 (January 1995); Christ Kutschera, "Azerbaijan: Kuwait of the Caucasus," *The Middle East*, no. 254 (March 1996).

realistic business understanding.<sup>33</sup> Developments that were already underway continued, but things did not move as quickly as they were initially expected to. Meanwhile, in the northern and southern parts of the Caspian Sea, new giant oil reserves were discovered (Kasghan in Kazakhstan and Shah Deniz in Azerbaijan) along with many dry wells in which Western oil companies invested millions of dollars to explore.



Graph 3: Caspian vs. Middle East (Oil Reserves Comparison)

Source: BP Statistical Review of World Energy 2006

### CASPIAN OIL: RESERVES AND ESTIMATES

The estimates of Caspian oil and gas vary significantly. According to Ottar Skegan, this is because of “a lack of a reliable information and different interpretations of

<sup>33</sup> Akiner, *The Caspian*, 91–92.

the existing data. Estimates also show changes from one year to the next not wholly explained by new discoveries and production; the pool of geopolitical and reservoir information keeps growing, warranting sometimes major revisions of prior conclusions.”<sup>34</sup>

In addition to the technical difficulties inherent in the process of estimating oil and gas deposits, geopolitical and economic motivations of regional and international actors increased the controversy about the existing oil and gas reserves in the Caspian region. Geologically, the Caspian region is largely unexplored; relatively little oil and gas data exist on the region. Industry has been reluctant to bear the exceptionally high cost of acquiring and generating basic exploration data in the region. Costs are high because the Caspian Sea depth changes rapidly and violent, frequent southeastern storms impede navigation and drilling operations in the northern and southern parts of the sea.<sup>35</sup>

There are several reasons for the exaggerated display of the Caspian oil reserves by the local governments. First, the Caspian states did not have the capital to invest in the development of oil fields, especially the ones offshore, so they depended on foreign investment to develop the oil fields. To attract foreign investment and oil companies, the Caspian states exaggerated the possible oil reserves. Second, these countries being newly independent and economically in bad condition, needed something they could use to spread hope to their people for a brighter future.<sup>36</sup>

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<sup>34</sup> Skegan, “Survey of Caspian’s Oil and Gas Resources,” 56.

<sup>35</sup> Bernard E. Gelb and Terry Rayno Twyman, eds., *The Caspian Sea Region and Energy Resources* (New York: Novinka Books, 2004), 14.

<sup>36</sup> Kenan Celik, Cemalettin Kalayci, “Azeri Petrolunun Dunu Bugunu,” *Journal of Qafqaz University* 2, no. 2 (1999): 63.



After the signing of the Contract of the Century<sup>37</sup> between Azerbaijan and a consortium of eight oil companies in September 1994, the energy resources in the Caspian region were presented to be another Middle East, Saudi Arabia or Kuwait.<sup>38</sup>

From time to time, the numbers and comparisons changed but the focus remained on Caspian oil as an important source of petroleum and natural gas. As we mentioned above, the data presented by different companies, agencies and governments significantly varied from year to year but during these times, especially from 1994 until 1997/98, people were optimistic about the development of Caspian oil. Governments and politicians who came up with huge numbers and estimates of Caspian oil reserves justified their claims on the ground that the oil-rich Middle East had been thoroughly explored with high-tech petroleum exploration techniques, but that the Caspian Sea region remained largely unexplored.

As new studies and seismic data emerged, the expectations about Caspian oil dampened.<sup>39</sup> In addition to the newly published data, the subsequent drilling failures changed the general euphoria and put Caspian oil on a par with the North Sea. More

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<sup>37</sup> Signed on 20 September 1994 between Azerbaijan and foreign oil companies, 8 billion dollars were allocated for investment over 30 years, during which 511 tons of oil were expected to be produced from the three offshore fields (Azeri-Guneshli-Chirag). The contract is based on production-sharing principles, with a distribution of percentages as follows: SOCAR (Azerbaijan) 20%, British Petroleum (UK) 17.127%, Amoco (USA), 17.01%, Lukoil (Russia) 10%, Pennzoil (USA) 9.82%, Unocal (USA) 9.52%, Statoil (Norway) 8.563%, McDermott International (USA) 2.45%, Ramco (Scotland) 2.08%, Turkish State Oil Company (Turkey) 1.75%, Delta-Nimir (Saudi Arabia) 1.68%. *Azerbaijan International* 2, no. 4 (Winter 1994). Available [Online]:

<[http://www.azer.com/aiweb/categories/magazine/24\\_folder/24\\_articles/24\\_aioc.html](http://www.azer.com/aiweb/categories/magazine/24_folder/24_articles/24_aioc.html)> [31 October 2005].

<sup>38</sup> In the 1990s, CIA energy analysts helped fuel expectations for Middle East reserve equivalent in the Caspian, with predictions of 200 billion barrels yet-to-find. Terence Adams, "Caspian Energy Development," in *The Caspian: Politics, Energy and Security*, ed. Shirin Akiner (London: RoutledgeCurzon-Taylor Francis Group, 2004), 92.

<sup>39</sup> The first study by Wood Mackenzie, a Scottish consulting company, revealed that the combined proven oil and gas reserves of Azerbaijan, Kazakhstan, Turkmenistan and Uzbekistan were 68 billion barrel (bbl) equivalent. Of this amount, the total for oil was 25.2bbl, 65 percent of which belonged to Kazakhstan (16.43bbl) and the rest to Azerbaijan (6.5bbl), Turkmenistan (0.91bbl) and Uzbekistan (1.37bbl). Two later studies published in April 1998 by Rice University's Baker Institute and International Institute of Strategic Studies of London (IISS) confirmed Wood Mackenzie's figures. Dekmejian and Simonian, *Troubled Waters*, 30.

realistic data about the existing Caspian oil and gas reserves are expected to surface in the coming years as more detailed studies and exploratory drills are done in the Caspian Sea.<sup>40</sup> Recent publications report more or less similar data about the existing oil and gas reserves in the Caspian Sea region. (See Table 3 for proven and estimated oil and reserves in the Caspian Sea and the amount of oil and gas production.)

Until more realistic and reliable estimates of Caspian energy resources emerge, “oil companies, investors and policy makers are bound to be at the mercy of overly optimistic and pessimistic assessments, often prompted by the geopolitical calculations of political and economic elites, lobbyists, and sensationalist media.”<sup>41</sup>

#### COST OF ENERGY DEVELOPMENT IN THE CASPIAN SEA

One of the important factors affecting the oil business in the Caspian Sea region is the cost of oil production. The arrival of foreign investment in the Caspian region was influenced by many factors, and the cost-profit analysis affected the decisions of oil companies and financial institutions that provided monetary support for the projects undertaken by governments and companies. Because of the geological and climatic conditions, the cost of oil drilling in the Caspian Sea is relatively high. One reason is that most of the oil deposits in the Caspian Sea are offshore, therefore modern and expensive systems are required, which contribute to the overall cost of oil production. There are reports that a single offshore exploratory oil well costs a minimum of 20 million dollars,

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<sup>40</sup> Among the credible resources that publish data related to oil and gas reservoirs in the world and the Caspian are: Energy Information Administration (EIA), BP Statistical Review of World Energy, and Oil and Gas Journal.

<sup>41</sup> Dekmejian and Simonian, *Troubled Waters*, 33.

possibly as much as 200 million dollars. Failure of these exploratory offshore oil drillings would cost up to 300–500 million dollars.<sup>42</sup>

The second factor that increases the cost of oil production is the necessity to build long and expensive pipelines. In order to remain commercially competitive, the global oil price must be above \$18–\$20 per barrel. Per barrel cost of oil production is \$10.7–\$12.5 for Azerbaijan and \$12–\$14.3 for Kazakhstan. Although these figures are slightly lower than North Sea oil production costs, they are far higher than the costs of oil production in the Middle East. Today a fully built up cost for Caspian oil is roughly \$12 to \$15/bl. This compares to the high end of a North Sea barrel, but is still some two to three times more expensive than an equivalent OPEC barrel in the Persian Gulf. Nevertheless, in the near future, Caspian built up costs will fall into the \$8–10/bl band, which should keep the Caspian globally competitive.<sup>43</sup>

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<sup>42</sup> Adams, "Caspian Energy Development," 92.

<sup>43</sup> "Downsizing the Caspian: OPEC & the Realities of Caspian Oil to the Year 2014," *APS Review Oil Market Trends* 57, 24 September 2001, 13. Relative per barrel cost of petroleum production in some OPEC countries: Iraq \$1, Kuwait \$3, Saudi Arabia \$2.5–\$4.0, Venezuela \$5, Gabon \$8, Iran \$8. Dekmejian and Simonian, *Troubled Waters*, 34–8.

Table 3:  
Proven and Possible Oil and Gas Reserves and Production in the Caspian Sea

| OIL                                   | Proven Oil Reserves                   |                 | Possible | Total             |                |
|---------------------------------------|---------------------------------------|-----------------|----------|-------------------|----------------|
|                                       | Country                               | Low             | High     | Low               | High           |
| Reserves<br>Billion<br>Barrels (bbl)  | Azerbaijan                            | 7               | 12.5     | 32                | 39             |
|                                       | Iran                                  | 0.1             |          | 15                | 15.1           |
|                                       | Kazakhstan                            | 9               | 29       | 92                | 41             |
|                                       | Russia^                               | 0.3             |          | 7                 | 7.3            |
|                                       | Turkmenistan                          | 0.546           | 1.7      | 38                | 32.546         |
|                                       | Uzbekistan                            | 0.3             | 0.594    | 2                 | 32.3           |
|                                       | Total Caspian Sea Region              | 17.246          | 44.194   | 186               | 167.246        |
|                                       |                                       |                 |          |                   | 194.194        |
| Production<br>1000 barrels<br>per day |                                       |                 |          | Low               | High           |
|                                       | Country                               | 1992            | 2000     | 2004              | 2010           |
|                                       | Azerbaijan                            | 222             | 309      | 319               | 789            |
|                                       | Iran                                  |                 |          |                   | N/A            |
|                                       | Kazakhstan                            | 529             | 718      | 1,221             | 748            |
|                                       | Russia^                               | 0               | 0        | 0                 | 200            |
|                                       | Turkmenistan                          | 110             | 157      | 260               | 475            |
|                                       | Uzbekistan                            | 66              | 152      | 150               | 225            |
|                                       | Total Caspian Sea Region <sup>3</sup> | 927.3           | 1,335.9  | 1,950.2           | 2,437          |
|                                       |                                       |                 |          |                   | 5,890          |
| GAS                                   |                                       |                 |          |                   |                |
|                                       | Country                               | Proven Reserves |          | Possible Reserves | Total Reserves |
|                                       | Azerbaijan                            | 30              |          | 35                | 65             |
|                                       | Iran                                  | 0               |          | 11                | 11             |
|                                       | Kazakhstan                            | 65              |          | 88                | 153            |
|                                       | Russia^                               | N/A             |          | N/A               | N/A            |
|                                       | Turkmenistan                          | 71              |          | 159               | 230            |
|                                       | Uzbekistan                            | 66.2            |          | 35                | 101            |
|                                       | Total Caspian Sea                     | 232             |          | 328               | 560            |
| Production<br>(tcf/y)                 | Country                               | 1992            | 2000     | 2004              | 2010           |
|                                       | Azerbaijan                            | 0.28            | 0.20     | 0.19              | 0.6            |
|                                       | Iran                                  |                 |          |                   |                |
|                                       | Kazakhstan                            | 0.29            | 0.31     | 0.56              | 1.24           |
|                                       | Russia^                               |                 |          |                   |                |
|                                       | Turkmenistan                          | 2.02            | 1.89     | 2.07              | 4.24           |
|                                       | Uzbekistan                            | 1.51            | 1.99     | 2.12              | 3.53           |
|                                       | Total Caspian Sea                     | 4.10            | 4.39     | 4.94              | 9.61           |

Source: Reserves, OGJ; Production, EIA; Forecasts, EIA.

### CHAPTER III

#### GEOPOLITICAL RIVALRY AND COMPETITION OVER RESOURCES: THE LEGAL STATUS OF THE CASPIAN SEA

More than a decade after the signing of the first major oil contract (1994) in the Caspian Sea, the legal status of the Caspian Sea remains an issue of state confrontation. The dispute over the legal status of the Caspian Sea represents a classic example of states pursuing self-interest, which inhibits a general sense of cooperation. Since the dissolution of the Soviet Empire, the riparian states of the Caspian Sea have been involved in discussions (oftentimes controversies) regarding the control and management of the resources in the Caspian Sea. The absence of a clear and accepted regime governing the affairs of the Caspian Sea has caused long debates among the littoral states. Since the use of the mineral resources was vital, especially for the newly independent states of the Caspian Sea, the geopolitical and economic issues remained on the political agenda for a long time.

In this chapter, I will mainly focus on the legal dispute over the Caspian Sea within the context of states seeking domination in the region and pursuing self-interest policies that favored themselves economically and politically. The issue of the legal status of the Caspian Sea has widely been covered and studied by the scholars; however those studies rarely analyzed the issue from the perspective of international relations theories. I think the long-lasting controversies among the littoral states of the Caspian Sea could be better analyzed and understood by employing some international theories, especially the failure of the states to come up with a clear cut solution in such a long

period of time. In addition, the Iranian factor will be studied in detail in this chapter, since Iran is one of the major factors affecting the legal status dispute during the last decade.<sup>1</sup> Analysis of the policies of individual states and the motives behind their policies will reveal much about the essence of this legal dispute, the absence of a genuine interstate cooperation in the Caspian Sea, and its impact on the development of Caspian oil industry.

Before analyzing the policies of individual states and their impact on general cooperation in the Caspian affairs, I will cover some basic issues that would help to understand future developments with respect to the legal status of the Caspian Sea.

### *The Caspian Sea*

The Caspian Sea is an enclosed body of water roughly 700 miles from north to south and 250 miles across, lying directly between the states of Central Asia and the Transcaucasus. It is a salt-water body connected to the Black Sea by the Volga and Don rivers. After the collapse of the Soviet Union, the Caspian Sea is adjoined by five states: Azerbaijan, Kazakhstan, Turkmenistan, Iran and Russia. Despite the fact that the Caspian Sea has geographical divisions (i.e., North Caspian, Middle and South Caspian) formal delimitation is a major issue of concern, as some of the littoral states are strongly opposed to it. It should be noted that the positions of the some of the littoral states changed over time, depending on the new developments and the interstate interaction; however the main issue of formally delimiting the Caspian Sea among the littoral states remains unsolved.

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<sup>1</sup> Gokhan Cetinsaya, "Rafsanjani'den Hatemi'ye Iran Dis Politikasina Bakislar," in *Turkiyenin Komsulari*, ed. Mustafa Turkes and Ilhan Uzgel (Ankara: Imge Yayinlari, 2002), 293–329.

## DELIMITATION VS CONDOMINIUM

*Delimitation* of the Caspian Sea refers to the sectoral division of the sea into national zones, with each state having sovereign rights over their sectors as they would have on their territories. *Condominium*, on the other hand, refers to the control and management of the sea by the participation of the coastal states. All decisions and policies regarding the use of the sea would be made jointly by the littoral states. Condominium is a system of joint governance, with each member having the same rights and an equal amount of influence.

The littoral states of the Caspian Sea supported either one of these options, or sometimes an amalgamation of the two systems, depending on the developments, after the break up of the Soviet Union.<sup>2</sup> Another aspect of the legal status of the Caspian Sea is the applicability of the UNCLOS (United Nation Convention on the Law of Sea, 1982).<sup>3</sup> Proponents of delimitation often assert that Caspian Sea is a *sea* and the UNCLOS rules should apply.

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<sup>2</sup> While influential and dominant states prefer condominium, expecting that they would impose their orders in such an environment (therefore Iran and Russia favor the concept of condominium), the other less powerful states (Azerbaijan, Turkmenistan and Kazakhstan) favor delimitation of the Caspian Sea.

<sup>3</sup> Some of the UNCLOS provisions related to Caspian Sea are as follows:

**Article 2:** This sovereignty extends to the air space over the territorial sea as well as to its bed and subsoil.

**Article 3:** Every State has the right to establish the breadth of its territorial sea up to a limit not exceeding 12 nautical miles, measured from baselines determined in accordance with this Convention

**Article 56:** Sovereign rights for the purpose of exploring and exploiting, conserving and managing the natural resources, whether living or non-living, of the waters superjacent to the sea-bed and of the sea-bed and its subsoil, and with regard to other activities for the economic exploitation and exploration of the zone, such as the production of energy from the water, currents and winds;

**Article 76:** The continental shelf of a coastal State comprises the sea-bed and subsoil of the submarine areas that extend beyond its territorial sea throughout the natural prolongation of its land territory to the outer edge of the continental margin, or to a distance of 200 nautical miles from the baselines from which the breadth of the territorial sea is measured where the outer edge of the continental margin does not extend up to that distance.

**Article 122:** 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.

The main issue is whether the Caspian Sea should be considered a *lake* or a *sea*. Since that agreement would determine the outcome accordingly, the coastal states of the Caspian Sea are divided into two main groups, each supporting different strategies to resolve the legal dispute. Russian and Iranian administrations advocated the idea that the Caspian Sea is a “lake,” whereas the other bordering states strongly oppose that, asserting that the Caspian Sea is a “sea.” If we look at the historical practices of the bordering states, we see that Russia and Iran considered it a lake and made several agreements on the economic utilization of the area. There is no formal agreement between Russia and Iran that divides the Caspian Sea between the two nations or creates areas of influence. The usual practice was to come to an agreement on emerging issues through bilateral agreements. This practice is called “condominium” because the specific region or sea is administered by the participation of the involved actors rather than dividing it among the members. However, if we accept the Caspian Sea as a *sea*, then the articles of international treaties should apply and it becomes permissible to divide the sea into national zones where individual states would have full sovereign rights on the use and exploitation of the territory. It would be the responsibility of the states to explore or to do anything they considered necessary, as any sovereign state would control its territory, sea and sea shelves.<sup>4</sup>

The government of Azerbaijan leads the claim that the Caspian Sea is subject to delimitation and that the UN 1982 convention on law of sea is applicable to the Caspian Sea.<sup>5</sup> The provision set forth by the convention entitles the states to “claim up to 12 miles sovereign territorial sea between 200 and 250 miles of continental shelves

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<sup>4</sup> S. Colakoglu, “Uluslararası Hukukta Hazar’ın Statu Sorunu,” *A.U. S.B.F. Dergisi* 53, no. 1–4 (January/February 1998): 108.

<sup>5</sup> “Status of Caspian Sea is Going to be Changed,” *Azeri Times Gazetesi*, 12 January 2000, 2.



depending on the configuration of the continental margin and 200 miles Exclusive Economic Zones (EEZ).”<sup>6</sup> Azerbaijan is supported by Turkmenistan and Kazakhstan since their interests also fall within this category. Having laid out the fundamentals of the controversy among the littoral states, let us now look more into the supporting arguments from both sides.

Russia draws on the examples from other cases that are similar to this one. However, the Russian claims fall short when we look at the similarities and differences of those cases. The case of the Gulf of Fonseca between El-Salvador, Honduras and Nicaragua is brought forward by Russia and Iran, that an international court of justice favored condominium over the dispute. But the difference is that the Gulf merely belonged to one nation (Spain) before that. In the Caspian Sea, we have Russian and Iranian control throughout its history.<sup>7</sup> The Azeri government also brings examples from all over the world that support the delimitation of the Caspian Sea among the bordering states. Some examples are: the lake of Victoria, the lake of Malawi, and the great lakes of North America, where the bordering states divided the sea proportionate to their coastlines.

## HISTORICAL BACKGROUND OF THE LEGAL DISPUTE

Historically, the Caspian Sea belonged to Russia and Iran. However, their presence in the Caspian Sea has never been an equal partnership nor has any clear regime existed to determine the usage of the sea surface and the seabed. Another important

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<sup>6</sup> Cynthia M. Croissant and Michael P. Croissant, “The Legal Status of the Caspian Sea: Conflict and Compromise,” in *Oil and Geopolitics in the Caspian Sea Region*, eds. Michael P. Croissant and Bülent Aras (Westport, CT: Praeger, 1999), 25.

<sup>7</sup> Aleksandr Akimov, “Oil and Gas in the Caspian Region: An Overview of Cooperation and Conflict,” *Perspectives on Central Asia* (June 1996).

aspect of history in the Caspian Sea is that Russia dominated the region and the Caspian Sea, which was confirmed by the treaties between Russia and Iran. Iran was never a naval power in the Caspian Sea and its activities were limited, for the most part, to navigation and fishing. “For Russia, the Caspian Sea was a route to the South, giving easy access to Iran’s northern territories. Peter the Great established the first Russian naval base on the Caspian at Astrakhan in 1723 and occupied the five Persian provinces on the south and east banks of Caspian Sea.... The Caspian route also enabled the Russian army to occupy the Iranian territories of Derbent and Baku in 1796, and to send troops to Russia-Iranian war fronts during the Caucasian wars of 1804–12 and 1826–28.”<sup>8</sup> Iran and Russia always refer to the treaties of the past between Iran and Russia/USSR as a basis for the establishment of a regime in the Caspian Sea. One reason is the absence of any major division of the Caspian Sea in the past, which they want to adapt to today’s environment. Russia and Iran tried to rationalize their adherence to a joint management of the Caspian Sea and its resources on the basis of the treaties that both states respected. The first Russian–Iranian agreement on the status of the Caspian Sea is the Peace Treaty of Golestan (Gulistan) on 12 October 1813. The treaty provided equal access to Russian and Iranian merchant vessels. However, only Russian warships were granted the exclusive right to sail the Caspian Sea.<sup>9</sup> The Peace Treaty of Turkmenchai, 22 February 1828, confirmed the same status described in the Gulistan Treaty of 1813. The 1828 treaty provided additional rights to Iranian merchant vessels to enter Russian

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<sup>8</sup> Ali Granmayeh, “Legal History of the Caspian Sea,” in *The Caspian: Politics, Energy and Security*, ed., Shirin Akiner (London: RoutledgeCurzon-Taylor Francis Group, 2004), 17.

<sup>9</sup> According to Article 5 of the Treaty: the Russian flag shall fly over Russian warships, which are permitted to sail in the Caspian as before, no other nation whatever shall be allowed warships in the Caspian. Granmayeh, “Legal History of the Caspian Sea,” 8.

rivers to receive assistance if needed.<sup>10</sup> The rules laid out in these treaties governed the conduct of economic activities between Iran and Tsarist Russia, through the nineteenth century.

After the revolution in Russia, the new Soviet regime took a different path from tsarist Russia and denounced the legacy of Russia to maintain supreme status in the Caspian Sea over Iran. The most important change came with the Treaty of Friendship between Persia and the Soviet Union on 26 February 1921. Article 11 of this treaty removed the privileges given to Russia by Article 8 of the Turkmenchai Treaty, to maintain a naval presence in the Caspian Sea.<sup>11</sup> Another cornerstone of the historical developments between Russian and Iran regarding the management and the use of the Caspian Sea is the Agreement on Trade and Navigation of 25 March 1940. Long talks between the two sides took place under the pressing needs of the coming World War II. The USSR needed to secure the Eastern flank by making sure that the Caspian Sea would not be used by a third power.<sup>12</sup> While the provisions regarding the rights of the signing

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<sup>10</sup> Through the Treaty of Turkmenchai in 1828, the Russians gained the upper hand in the Transcaucasus area; the treaty gave them the northern part of the land and Persia got the southern half. Persians were forced to cede the Khanates of Erivan and Nakhichevan to the Russians. The borders drawn at that time are still valid today

<sup>11</sup> "The two high contracting parties shall enjoy equal rights of free navigation on the sea under their own flag, as from the date of signing of the present treaty." Bahman Aghai-Diba, *The Law & Politics of the Caspian Sea in the Twenty-First Century: The Positions and Views of Russia, Kazakhstan, Azerbaijan, Turkmenistan, with Special Reference to Iran* (Bethesda, MD: Ibex, 2003), 20.

<sup>12</sup> "The 1940 Convention provided for a host of co-equal Iran-Soviet activities in the Caspian Sea, including the freedom to navigate and to sabotage. Each party also reserved a 10 mile-wide area off its coast for exclusive fisheries. However, the Convention made no reference to either party's territorial sovereignty in the Caspian. The Convention however did inform an exchange of diplomatic notes, dated March 25, 1940, in which each party referred to the Caspian Sea as an 'Iranian and Soviet sea.' The British Foreign Office's gratuitous translation of the note referred to the Caspian as a sea which the parties 'hold to belong to Iran and to the Soviet.' The text of the note, however, makes it clear the parties did not intend to create a condominium or to express recognition of a prescriptive form of co-ownership. The note simply referred to the Iran-Soviet character of the sea in the context of regulating third-nationality activities in the Caspian." "Lost at Sea, Iran's revolving legal position in the Caspian Sea," *The Iranian*, 29 October 1998. Available [Online]: <<http://www.iranian.com/GuiveMirfendereski/Oct98/Caspian/>> [12 February 2007].

states for fishing, transportation and trade remained same, the treaty provided a 10-nautical-mile exclusive zone for the bordering states.<sup>13</sup>

By looking at the treaties between the two parties and the conduct of affairs between Iran and Soviet Russia, it is possible to draw some conclusions that might shed light on the current discussions pertaining to the legal regime of the Caspian Sea. Based on the articles from these treaties we can assert that the Caspian Sea has been defined as an exclusive zone for two littoral states wherein each state had equal rights for fishing, transportation and trade. The treaties also focused on the prevention of a possible infiltration by hostile powers. Both states offered assistance to each other's vessels in case of emergencies, and they also agreed to cooperate on the issue of pollution. However, none of the above treaties or the Soviet–Iranian relationship on the Caspian Sea amounts to sufficient evidence for delimitation or condominium. Historically, neither Iran nor Russia/USSR tried to create a legal regime for the management of the Caspian Sea. As Rodman Bundy notes, "...terms such as condominium or sovereignty simply do not appear."<sup>14</sup>

Given the historical background of the current discussions, it is difficult to make a case for condominium or delimitation. The best way to describe the current status would be *Sui Generis*.<sup>15</sup> If history is any guide, it was the pressing need of new developments

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<sup>13</sup> The 25 March 1940 USSR-Iran Treaty briefly provided that "commercial ships of one party would be treated in the ports of the other party the same as its national ships; each Party reserved the right for its ships to fish within 10 nautical miles of its coast; pursuant to the principles of the 1921 Treaty, only Soviet and Iranian ships could navigate the Caspian Sea. According to the 1940 Letters, the Caspian Sea was regarded by the Parties as a 'Soviet and Iranian Sea'." "Caspian Basin Delimitation and Joint Development; Options and Constraints," Available [Online]: <http://www.iea.org/textbase/work/2002/caspian/Irina%20PALIASHVILI%20RULG%20111102.pdf> [22 December 2005].

<sup>14</sup> Rodman R. Bundy, "The Caspian—Sea or Lake? Consequences in International Law," *Central Asia Quarterly* (Summer 1995): 4.

<sup>15</sup> Ibid. Also see Aghai-Diba, *The Law & Politics of the Caspian Sea in the Twenty-First Century*.

that changed the course of management of the Caspian Sea and the treaties between two states codified these needs. Although these agreements will remain as a base for the legal regime in the Caspian Sea, they need to be replaced to the satisfaction of the littoral states through mutual cooperation.

## IN SEARCH OF A NEW REGIME IN THE CASPIAN SEA

The breakup of the Soviet Union increased the number of littoral states, in one night, to five. In fact, that is when discussion of the legal regime of the Caspian Sea started. Although by the Alma Ata Declaration on 21 December 1991, the ex-Soviet republics confirmed their adherence to the international agreements signed by the Soviet Union, the discussions over the regime in the Caspian Sea continued for more than a decade.<sup>16</sup> One of the main reasons for the dispute over the legal regime in the Caspian Sea is the existence of huge oil reserves. The desire on the part of the new littoral states to exploit the available resources is especially high because of their dependence on the revenues from oil production.<sup>17</sup> Azerbaijan, Kazakhstan and Turkmenistan perceived the oil and gas reserves as their only conceivable way to economic development, although these concerns of the new littoral states are not shared by Russia and Iran.<sup>18</sup> Discussions over the legal status of the Caspian regime increased after the breakup of the Soviet

<sup>16</sup> The Alma Ata Declaration, signed by eleven heads of state of former Soviet republics on 21 December 1991, stated, "With the formation of the Commonwealth of Independent States the USSR ceases to exist. Member states of the Commonwealth guarantee, in accordance with their constitutional procedures, the fulfillment of international obligations, stemming from the treaties and agreements of the former USSR." Available [Online]: <[http://www.country-data.com/frd/cs/belarus/by\\_appnc.html](http://www.country-data.com/frd/cs/belarus/by_appnc.html)> [22 December 2005].

<sup>17</sup> *Avrasya Dosyasi TIK A Bulteni* 128 (March 2000): 2. See also "Azerbaycan," *Avrasya Dosyasi* (January 2000).

<sup>18</sup> Russia and Iran do not have considerable oil and gas resources in the Caspian Sea but they have tremendous amounts of reserves elsewhere in their territories. Russia is the 9<sup>th</sup> largest oil producer in the world with its 50bbl of reserves, and Iran ranks as the 2<sup>nd</sup> largest natural gas exporter in the world after Russia. Iran has also 10 percent of the world's oil resources, which makes it the fifth largest in the world. United States Energy Information Administration. Available [Online]: <<http://www.eia.doe.gov>> [26 October 2006].

Empire. Attitude and conduct of the coastal states affected the developments with regard to the establishment of a new legal regime in the Caspian Sea. Numerous opinions and suggestions dominated the political agenda throughout the decade. Some of the littoral states supported the idea of delimitation of the Caspian Sea into national zones. Others pushed for a joint sovereignty and suggested that the Caspian Sea should be managed by the participation of all littoral states rather than dividing it into national sectors. Over time, some states preferred to extend their sovereignty unilaterally, as they saw it fit to their economic and political interest. As expected, the various opinions and policy choices created an environment not conducive to cooperation. In order to understand the aspects of cooperation over the legal status of the Caspian Sea, we must examine the policies and respective interests of the littoral states. Developments over time also changed the direction of the policies and choices of the littoral states and in the end, affected the very nature of the issue.

As previously mentioned, some of the littoral states were eager to develop their resources in the Caspian Sea and therefore wanted to solve the remaining issues quickly. However, the developments in the coming days showed that cooperation among the riparian states in the region has been slow to emerge. In the next section I focus on the reasons behind the slow development of cooperation, by looking at the policies of the states of the Caspian on the legal status issue.

## AZERBAIJAN AND THE CASPIAN SEA

Azerbaijan (Baku) historically has been one of the centers of the Russian oil industry.<sup>19</sup> Among the five littoral states, Azerbaijan has been the strongest and most enthusiastic supporter of delimitation of the Caspian Sea. Starting with its independence, Azerbaijan focused on the application of the sovereign rights of each littoral state to exploit the resources of the Caspian Sea within their own national zones.<sup>20</sup> For Azerbaijan, the most important aspect of the legal status of the Caspian Sea is the exploitation of the oil and gas reserves. (See tables 4 and 5 on the oil and natural gas reserves in the Caspian Sea.) Other issues, e.g. fishing, transportation and environmental protection, remain respectively secondary.<sup>21</sup> The Azeri position on the Caspian Sea is directly related to the dependence of the Azeri economy on the petroleum revenues.<sup>22</sup> As may be the case with other littoral states, Azerbaijan's policy on this issue is an example of states pursuing self-interest in the international arena, as described by the neorealist theoretical approach. To support its position, Azeri politicians referred to "the pattern derived from the division of comparable bodies of inland water, such as Lake Superior, Huron, Erie and Ontario between the United States and Canada, Lake Chad among Chad,

<sup>19</sup> For more information see Chapter II.

<sup>20</sup> Khoshbakht Yusifzade, SOCAR Vice President for Geology and Geophysics, states that "The Caspian Sea has been divided in this way for 19 years—so that Azerbaijan had about 80,000 sq. km., Turkmenistan almost the same, Kazakhstan had 113,000 sq. km., and Russia had 64,000 sq. km. of the Caspian floor. There was complete unanimity among all the States regarding the division at that time." Khoshbakht Yusifzade, "The Status of the Caspian," *Azerbaijan International* (Winter 1994): 30. Available [Online]: <[http://www.azer.com/aiweb/categories/magazine/24\\_folder/24\\_articles/24\\_statuscaspian.html](http://www.azer.com/aiweb/categories/magazine/24_folder/24_articles/24_statuscaspian.html)> [22 December 2005].

<sup>21</sup> Khoshbakht Yusifzade also argues that "there is a significant difference between the fishing rights and mineral rights in the sea. Those who have little knowledge of legal aspects of the sea usually confuse the fishing rights with the right of using the mineral resources. In the international arena, the division of sea floors among the countries for using the mineral resources has long been a common practice. If, for instance, the fishing rights of a certain country are limited to 12 miles, this does not mean that its mineral resources must also be restricted to the same boundary." *Ibid.*, 30.

<sup>22</sup> According to Energy Information Agency, more than 90 percent of the Azeri export is oil and natural gas.

Niger, Nigeria and the Cameroon; Lake Geneva between France and Switzerland; Lake Constance among Austria, Germany and Switzerland.”<sup>23</sup>

In the case of those lakes mentioned above, the coastal states used a median line–equidistance method to divide the body of water into exclusive national zones of jurisdiction that would cover surface, air and subsurface of the lakes. Azeri officials also refer to the 1975 division of the Caspian Sea into economical regions among the ex-Soviet republics under the leadership of the Soviet oil industry, which neither Russia nor other republics opposed at that time.<sup>24</sup> The aforementioned points constituted the basis of Azeri approach to the legal dispute over Caspian Sea. For the most part, Azerbaijan turned out to be the only actor in the region that did not change its position. Throughout the decade Azeri officials publicly opposed any other solution to the Caspian Sea legal dispute, especially the Russian and Iranian initial push for joint management of the sea and the Russia-Iranian claim that the 1940 agreement should be considered as a basis for further developments in the Caspian Sea.<sup>25</sup>

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<sup>23</sup> Scott Horton and Natic Memedov, “Legal Status of the Caspian Sea,” in *The Caspian Region at a Crossroad: Challenges of a New Frontier of Energy and Development*, ed. Hooshang Amirahmadi (Palgrave Macmillan, 2000), 268.

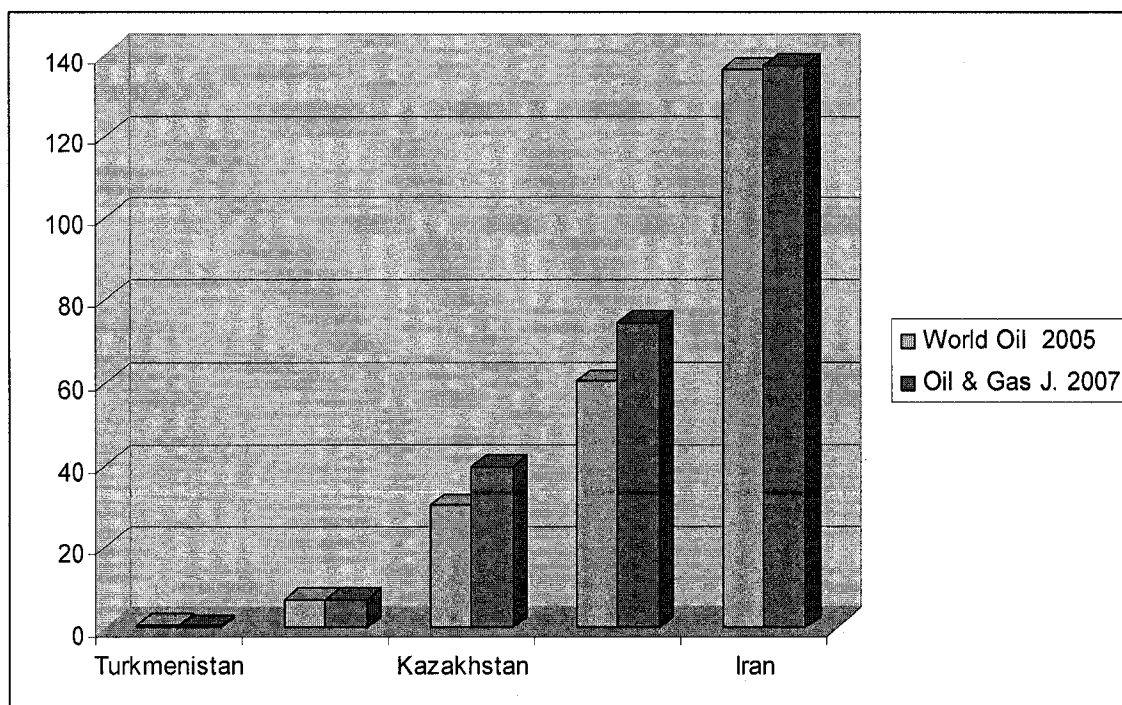
<sup>24</sup> Roland Sinker, “The Management of a Transboundary Energy Resource: The Oil and Gas of the Caspian Sea,” in *The Politics of Caspian Oil*, ed. Bülent Gökay (New York: Palgrave, 2001), 61.

<sup>25</sup> “At present, the 1921 and 1940 treaties between Iran and the Soviet Union, govern the legal status of the Caspian. These treaties have not yet been formally invalidated, because no new document has been prepared to provide a basis for the Caspian legal regime. There are no zoning, sectoral divisions or demarcation of boundaries ... unilateral actions without due attention to the rights and interest of all the littoral countries will only aggravate the situation and have negative ramifications for all.” Georgi Tichanov, “American Interests in the Caspian Sea Region.” Available [Online]: [http://www.iies.org/OLD\\_Site/english/training-conf/conference/conf98-paper/pdf/tichanov.pdf](http://www.iies.org/OLD_Site/english/training-conf/conference/conf98-paper/pdf/tichanov.pdf) [14 October 2005].



Table 4:  
Oil Reserves: Caspian Region (Billion Barrels)

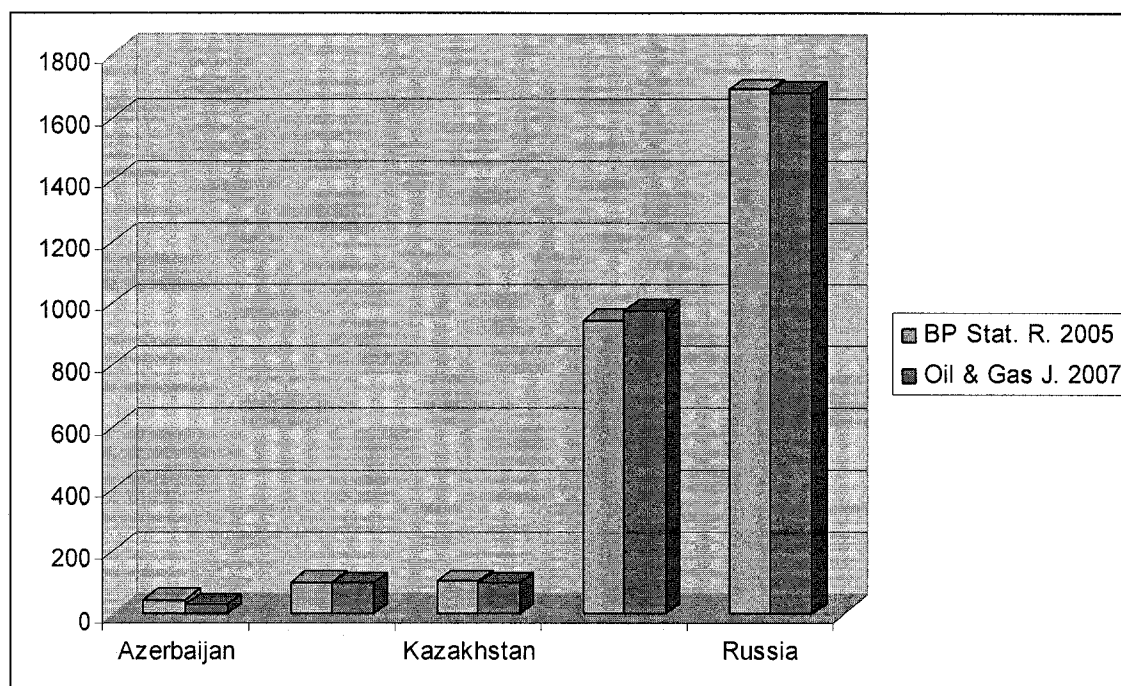
|              | World Oil<br>Year End 2005 | Oil & Gas Journal<br>January 1, 2007 |
|--------------|----------------------------|--------------------------------------|
| Turkmenistan | 0.600                      | 0.546                                |
| Azerbaijan   | 7.000                      | 7.000                                |
| Kazakhstan   | 30.000                     | 39.620                               |
| Russia       | 60.000                     | 74.436                               |
| Iran         | 136.270                    | 137.490                              |



Graph 4: Oil Reserves: Caspian Region (billion barrels) *(View in 3D Graph)*

Table 5:  
Natural Gas Reserves: Caspian Region (Trillion Cubic Feet)

|              | BP Statistical Review 2005<br>Year End 2005 | Oil & Gas Journal<br>January 1, 2007 |
|--------------|---|--------------------------------------|
| Turkmenistan | 102.370                                     | 100.000                              |
| Azerbaijan   | 48.361                                      | 30.000                               |
| Kazakhstan   | 105.900                                     | 100.000                              |
| Russia       | 1,688.046                                   | 1,680.000                            |
| Iran         | 943.922                                     | 974.000                              |



Graph 5: Natural Gas Reserves: Caspian Region (trillion cubic feet) *(View in 3D Graph)*

On the other hand, Azerbaijan actively participated in the conferences and other meetings concerning the Caspian Sea. On many occasions, Azeri officials expressed their desire to cooperate with other littoral states on the issues of ecology, prevention of pollution and

other environmental developments.<sup>26</sup> Azeri attitude on the Caspian legal status has been less cooperative despite the official and non-official statements, which expressed a positive attitude toward cooperation with littoral states over issues concerning the Caspian Sea. The Tehran Conference is an example of this kind of an attitude that created a deadlock on the developments concerning the legal status of the Caspian Sea. The Tehran conference was organized by Iran in 1992 to create a regime or a treaty on regional cooperation in the Caspian Sea. One of the main themes supported by Iran and Russia in this conference was the establishment of an organization, by participation of the littoral states, to manage the issues of the Caspian Sea without going through delimitation. Decisions were to be made jointly and each state would have the power to veto. Azerbaijan quickly opposed the Russian-Iranian approach and announced that Azerbaijan would not be a part of this organization.<sup>27</sup> The same persistent Azeri attitude was also apparent in Moscow in 1994 and Ashgabat in 1995. Azeri officials clearly stated that they would not sign any treaty that proposed joint sovereignty or resource sharing. It is clear that the idea of joint management worked against Azeri interests, and Azerbaijan was not willing to share the resources in the Caspian Sea with other littoral states. Azeri officials kept pushing for the division of the sea, as that was the only option that favored Azerbaijan in terms of petroleum reserves.

Having been very keen on the sectoral division of the sea, Azerbaijan moved on to the production sharing agreements with Western companies, to develop offshore fields

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<sup>26</sup> The single and unique environment of the Caspian Sea was also reaffirmed in the declaration signed by the heads-of-state of Azerbaijan, Kazakhstan, Turkmenistan and Russia on 14 October 1993. Georgi Tichanov, "American Interests in the Caspian Sea Region." Available [Online]: <[http://www.iies.org/OLD\\_Site/english/training-conf/conference/conf98-paper/pdf/tichanov.pdf](http://www.iies.org/OLD_Site/english/training-conf/conference/conf98-paper/pdf/tichanov.pdf)> [14 October 2005].

<sup>27</sup> Sinker, "The Management of a Transboundary Energy Resource," 62.

in the Caspian Sea. In 1994, the Azeri government finalized the agreement on the development of Azeri, Chirag and Guneshli oilfields with an international consortium of oil companies headed by British Petroleum.<sup>28</sup> These fields were 70–120 miles east of Baku and some were beyond the median line. For a long time, Azerbaijan claimed a superior claim over the Caspian Sea, on the grounds that Baku was the center of the Soviet oil industry and played a preeminent role in the development of the Caspian oilfields.<sup>29</sup> Azerbaijan granted similar licenses to oil companies to develop other potential oil and gas deposits.<sup>30</sup> As the contracts were implemented, enormous activity began in the area. New equipment was brought in, new surveys of the area were carried out, and staff were trained.<sup>31</sup> As these activities continued, the legal dispute entered another stage where the huge investment could no longer be ignored. As Roland Sinker explained, “the implications of these activities, the longer these activity continues, the harder it is to envisage an arbitration tribunal on the status of Caspian ignoring the fiscal realities of this investment and the agreements leading to it.... Azerbaijan’s attitude and

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<sup>28</sup> Signed on 20 September 1994 between Azerbaijan and foreign oil companies, 8 billion dollars were allocated for investment over 30 years, during which 511 tons of oil were expected to be produced from the three offshore fields (Azeri–Guneshli–Chirag). The contract is based on production-sharing principles.

<sup>29</sup> Azeri President Aliiev commented that “in drafting the division principle, we should recognize the degree to which every littoral country has developed the shelf and the value of the sea for each country.” Quoted in Granmayeh, “Legal History of the Caspian Sea,” 21.

<sup>30</sup> “Azerbaijan in Petrol Anlasmaları,” *Avrasya Dosyası*, no. 2 (October 1997).

<sup>31</sup> Karabagh and Shah Deniz field are among the deposits Azerbaijan opened for development. In 1996, a consortium of western oil companies and Russia and Iran were given a contract to develop 1.8 billion barrels of the Shah Deniz oilfield. However, on 23 February 1999, CIPCO president James Tilley said, “We found gas, we found oil and we found gas condensate—but we didn’t find enough of it. There was quite a gap between what we found and what would be commercial, We needed roughly to find twice as much.” James A. Tilley, “Karabakh Prospect: No longer in operation after February 23, 1999,” Available [Online]:

<[http://www.azer.com/aiweb/categories/magazine/62\\_folder/62\\_articles/62\\_socar\\_cipco.html](http://www.azer.com/aiweb/categories/magazine/62_folder/62_articles/62_socar_cipco.html)> [3 September 2006].

conduct are effectively endorsing the current legal regime for the Caspian Sea as one based on delimitation.”<sup>32</sup>

#### BY WAY OF IRAN: IRAN’S QUEST FOR DOMINATION IN THE CASPIAN SEA

Throughout the decade after the dissolution of the Soviet Empire, Iran emerged as a clever negotiator in the affairs of the Caspian region. Despite heavy pressure from the United States to exclude Iran from any oil Business, Iran managed to exert influence over the developments in the Caspian region, especially on the issues of the Caspian Sea legal status and pipeline negotiations. Iran successfully used its opposition to the division of the Caspian Sea, both the surface and the seabed, into national sectors among the littoral states.

Iranians call the Caspian Sea “Khazar: or the Sea of Mazandaran, and perceive it as a sea belonging to the people living on its coasts. Historically the sea belonged to Russia and Iran and the use of the sea was governed by treaties signed between the two nations. The breakup of the Soviet Union increased the number of littoral states but according to the Iranians, nothing had changed except the number of states surrounding the Caspian Sea. The same rules and agreements applied as the ex-Soviet republics of the Caspian region signed the Alma Ata Declaration, which confirmed the validity of the treaties and agreements signed by the Soviet Union. The main Iranian view on the legal status of the Caspian Sea rests on the applicability of the former treaties between the Soviet Union and Iran, particularly the 1921 Treaty of Friendship and the 1940 Treaty of Commerce and Navigation. Two main themes from those treaties were put forward by

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<sup>32</sup> Sinker, “The Management of a Transboundary Energy Resource: the Oil and Gas of the Caspian Sea,” 63.

the Iranians as a foundation for the legal status of the Caspian Sea: the premise of equality and the exclusion of third-party foreign nationals from the Caspian Sea.<sup>33</sup> During the early years of succession, Iran, along with Russia, stressed joint utilization of the sea as the legal basis for the rights and responsibilities of the littoral states.<sup>34</sup> Through the coming years, Iran played an active role in the negotiations.<sup>35</sup> In 1992, the Caspian states gathered in Tehran with the Iranian initiative, which marked the first step toward creation of a regional organization to coordinate all activities, including fishery, transportation, oil and gas exploration, and the prevention of pollution and the protection of the ecological system. Iran took part in all of the regional activities and conferences related to the Caspian Sea. To consolidate its position on the legal dispute, Iran worked closely with Russia. Iran, with Russia, Turkmenistan and Kazakhstan supported the 1994 Moscow conference and the 1995 Biological Resource agreement. Iran on many occasions asserted that unilateral claims of ownership and division are unlawful and unacceptable.<sup>36</sup> Iranian scholars focused on the legal discussions, with reference to the past and existing treaties, and claimed that “with a reasonable degree of certainty, Iran and Soviet Union never acted in any manner to indicate a delimitation of the Caspian Sea into their areas of jurisdiction, they never thought in terms of dividing Caspian’s surface or seabed ... the remaining query as to the supposition of a joint Iran USSR ownership or

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<sup>33</sup> See Mohammad Ali Movahed, “Iran’s View on the Legal Regime of the Caspian Sea,” in *The Caspian Region at a Crossroad: Challenges of a New Frontier of Energy and Development*, ed. Hooshang Amirahmadi (New York: St. Martin’s Press, 2000).

<sup>34</sup> Ibrahim Karagul, “Turk Rus Cephelesmesi,” *Yenisafak*, 19 October 2000.

<sup>35</sup> For a detailed Iranian view on condominium, see M. Dabiri, “The Legal Regime of the Caspian Sea: A Basis for Peace and Development,” *Journal of Central Asia and Caucasia Research* (Tehran) (Summer 1994): 1–20.

<sup>36</sup> For more details on the Iranian and Russian response to Azeri initiatives, see Aghai-Diba, *The Law & Politics of the Caspian Sea in the Twenty-First Century*, 35–38, 92–106.

condominium over the Caspian becomes all the more purposeful.”<sup>37</sup> However, “Brice Clagged supplied an extensive legal argument against the Iranian position for condominium: ‘initially, it may be noted that, while certain writers have discussed the theoretical possibility of common ownership of lakes and inland seas no such condominium appears even to have existed.’ He further notes that a leading scholar (Verzije), after an exhaustive study concluded that ‘examples of common ownership do not to my knowledge actually exist.’”<sup>38</sup>

Iran’s opposition to the Azeri and Kazakh position on the legal status of the Caspian Sea continued throughout the decade. Despite the discrepancy on the Russian view from time to time, Iran maintained its tough stance and the legal dispute remained unresolved. This in fact gave way to unilateral and occasionally bilateral initiatives in the Caspian Sea, leaving a common solution to the problem unsuccessful. As Paul Gregory explains, “the viability of a comprehensive regional approach depends upon a reasonable degree of common interest. As noted above, the Caspian Sea littoral states have divergent goals and objectives that have become more apparent in the coming years. The lack of progress on a formal unanimous agreement has become increasingly apparent. Those Caspian states with rich national sectors and in need of massive capital injections have less interest in a common settlement.”<sup>39</sup> One reason for the absence of cooperation on this issue is the littoral states’ self-interest economic and political policies. Iran, as one of the OPEC countries and with the second largest natural gas resources in the world,

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<sup>37</sup> Movahed, “Iran’s View on the Legal Regime of the Caspian Sea,” 279.

<sup>38</sup> Paul R. Gregory, “Developing Caspian Energy Reserves: The Legal Environment,” in *Caspian Energy Resources: Implications for the Arab Gulf States* (Tauris: Emirates Center for Strategic Studies, 2002), 33.

<sup>39</sup> Gregory, “Developing Caspian Energy Reserves,” 34.

tried to maximize its economic gains in the Caspian Sea.<sup>40</sup> First, a regime of joint sovereignty or sharing of the resources on an equal percentage basis would give Iran 20 percent of the Caspian resources, while delimitation of the sea would only provide a 12–14 percent share. A regime based on condominium would leave Iran better off economically and politically while leaving Turkmenistan and Azerbaijan, respectively, worse off, as some of the resources would have to be shared by Iran. In addition to the distribution of the resources in percentage, a delimitation based on national zones would leave Iran worse off, since most of the proven and productive oil and gas deposits are located outside the Iranian national sectors.<sup>41</sup> After 1997, Iran slowly moved from condominium to equal share of the Caspian Sea among the coastal states, with each state getting 20 percent of the sea.<sup>42</sup> This indicates that Iran clearly followed a policy of self-interest to maximize its gain. When Iran purchased a quarter of Azerbaijan's share in 1994 in the consortium, Iran temporarily reversed its position and agreed to be part of the project that was based on delimitation. However, Iran reverted back to its classical

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<sup>40</sup> See n. 14.

<sup>41</sup> As Geoffrey Kemp notes, Iran has a strong interest in claiming a share of the seabed beyond its own sector because the main oilfields lie in the middle of the sea, off Azerbaijan. The least promising waters are those off Iran. Geoffrey Kemp, "Iran and Caspian Energy: Prospects for Cooperation and Conflict," in *Caspian Energy Resources: Implications for the Arab Gulf States* (Tauris: Emirates Center for Strategic Studies, 2002), 57. Iran's long-recognized sector of the Caspian Sea covers 12 to 14 percent of its surface area. The collapse of the USSR has changed neither the size nor the status of the Iranian sector. However, Iran now demands either a condominium (or joint sovereignty) that would allow it to claim equal proceeds from all energy developed at the seabed, regardless of its investment in that development or the expansion of its sector to at least 20 percent of the surface area and seabed. That territory includes part of the oil-rich Azerbaijani sector. Ariel Cohen, "Iran's Claim Over Caspian Sea Resources Threaten Energy Security," Available [Online]: <<http://www.heritage.org/Research/MiddleEast/bg1582.cfm>> [29 August 2006].

<sup>42</sup> President Khatami in a speech in summer 2000, expressed that Iran expects a system of division that would leave it with a share of not less than 20 percent, and if the regime is to divide then the seabed and the surface should equally be divided. Aghai-Diba, *The Law & Politics of the Caspian Sea in the Twenty-First Century*, 37.



opposition when, as a result of American pressure, Iranian participation was not ratified by the Azeri parliament.<sup>43</sup>

The second aspect of the Iranian opposition to delimitation is related to political and geopolitical considerations. In a regime of joint management, strong states, e.g. Iran and Russia, would have a better chance to influence the direction of developments and policies of the coastal states. As has been the case for more than one occasion in the Caspian region, Iran and Russia would use their influence and veto to prevent any activity or development in the region, especially if the outcome is not desirable for them. Russia and Iran have expressed their discomfort with growing Western involvement in the development of the oil reserves in the Caspian and in the Transcaucasus region. The policies of the United States in the region in support of Azerbaijan and other republics, and of oil companies, were interpreted differently by Russia and Iran, although the U.S. attitude toward Russian policies was constructive. This would exclude only Iran, as the relations between these two nations has been poor for quite a long time. The United States always followed a policy that would keep Iran in check and make sure Iran did not get any part in the regional establishments, especially in oil deals related to production and transportation.<sup>44</sup> Russia was never happy seeing a strong state in the region, as it prevented Russia from acting freely. Russia also had no interest in seeing these former dominions in the Caspian region grow more and more independent, as that conflicted with the Russian goal of reestablishing its old hegemony over the region. In a regime where each member has veto power, Iran would control the economic and political

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<sup>43</sup> Sinker, "The Management of a Transboundary Energy Resource," 71–72.

<sup>44</sup> It was the objective of the American government that by following a policy of containment, Iran might change its support for international terrorism and acquisition of weapons of mass destruction. Talbot Flashman and Paul Goble, "From Myths to Maps: American Interests in the Countries of Central Asia and the Caucasus," *Caspian Crossroads Magazine* 3, no. 1 (Summer 1997).

developments in the region, especially in Azerbaijan, since Iran has no interest in seeing a neighbor become economically and politically strong. Iran has long worried about the Azeri population in the northern parts of the country.

A strong and influential Azerbaijan may pose a threat to the unity of Iran. Because of this concern, Iran has long followed policies that would keep Azerbaijan in control. A strong relationship with Russia on many issues, and support for Armenia in the conflict between Azerbaijan and Armenia over Nagorno-Karabagh, though, clearly contradicts the theological foundations of an Islamic state. An alliance with non-Muslims against Muslims in a war is mainly directed at preserving national and territorial integrity in the north.<sup>45</sup>

Another factor that would explain the Iranian position on the legal dispute is the involvement of the United States.<sup>46</sup> In collaboration with Russia, Iran has been trying to counter the American influence in the region since the presence of the United States and that of the West is seen as a threat to Russian and Iranian interests. However, it is the general trend between the United States and Iran and the ongoing hostility and mistrust that guides their policies in the Caspian Sea. as each party tries to push for options that would exclude the other. A regime of condominium would eliminate more and more U.S. involvement in the Transcaucasus and the Caspian region, while a regime of delimitation would confirm the U.S. presence in the Caspian Sea basin through its support for the newly developed countries and the oil companies. For these reasons, Iran

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<sup>45</sup> Iran has constantly worried about the Azeri population in the Northern provinces. There are almost 15 million ethnic Azeri, nearly twice as many as in Azerbaijan, and they also constitute one fourth of the total Iranian population.

<sup>46</sup> The basic aims of American policies in the region is "promoting stability, securing uninterrupted flow of oil to the world market, excluding Iran from oil business and preventing any single (Russia) state dominating the entire region and Caspian oil." (See "Hearing on the U.S. Role in the Caucasus and the Central Asia," testimony of Federico Pena, Secretary, Department of Energy, Committee on International Relations, 30 April 1998.)

and Russia strongly criticized the Azeri initiative in 1994 to establish an international consortium to develop three Azeri offshore oilfields.<sup>47</sup>

Despite the unilateral initiatives and Russian compromise in light of the policy shift starting in 1995 and 1996, Iran remained as the only state supporting the idea of condominium. As with new developments, Russia dropped its initial tough stance and worked with the littoral states to find bilateral solutions to the demarcation of the Caspian seabed. In 1995–96, Russia slowly moved to the idea of sharing the seabed and allowing 35–40 miles of national zones. During 1995–96, Russia and Kazakhstan, Russia and Azerbaijan, and Kazakhstan and Iran held bilateral meetings to find a solution for the legal status of the Caspian Sea. Most of the meetings and conferences did not produce an actual solution apart from the parties' acknowledging the need to work closely with each other to find a solution to the legal dispute.<sup>48</sup> After 1996, the Caspian states also followed the same pattern. Despite the fact that disagreements among the littoral states remained at the political level, there are instances of high tension between the coastal states emanating from the absence of a regime governing the use of the Caspian Sea resources. One of the most serious confrontations occurred between Azerbaijan and Iran in July 2001, when two Azerbaijani survey vessels were forced out of a contested zone by an Iranian gunship.<sup>49</sup> The area would fall into the Iranian sector if the 20-percent rule

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<sup>47</sup> See Nur-Muhammad Noruzi, "Contention of Iran and Turkey in Central Asia and the Caucasus," *Amu Darya* 4, no. 5 (Summer 2000).

<sup>48</sup> In bilateral negotiations, each side expressed their intention to form a regime that could be acceptable to all parties. In a joint statement on 11 May 1996, Iran and Kazakhstan agreed that "the parties consider that drawing up and conclusion of the convention on the legal status of the Caspian sea, on the basis of a consensus between the five coastal states, is a task of utmost importance which must not be delayed." Vyacheslav Gizzatov, "Negotiations on the Legal Status of the Caspian Sea 1992–1996: View from Kazakhstan," in *The Caspian: Politics, Energy and Security*, ed. Shirin Akiner (London: RoutledgeCurzon-Taylor Francis Group, 2004), 356.

<sup>49</sup> The Alov, Araz and Sharg contract area covers approximately 1,400 sq. km and is about 120 km southeast of Baku in depths between 300 and 800 meters. Prospective reservoirs are expected to be found

was applied; however, Azerbaijan claims that the area falls within the Azeri sector and Azerbaijan has a right to survey/develop the area. A warplane also flew over the same location to show Iranian determination on the issue. The BP-operated vessels had to retreat from the contested zone; however, this has created a major diplomatic and political crisis between the two countries. Although the issue was settled later with the efforts of Azeri President Haidar Aliev, the neighboring countries expressed their concern over Iran resorting to force to find its way out of the legal dispute in the Caspian Sea.<sup>50</sup> Meanwhile, Turkey openly criticized the Iranian move in the Caspian Sea and in support of Azerbaijan, the Turkish Foreign Ministry stated that Turkey was prepared to send troops to Azerbaijan if necessary.<sup>51</sup> Turkish F-16s flew over Baku in an air show and the Turkish Chief of Staff General Hussein Kivrikoglu visited Azerbaijan after the incident.<sup>52</sup> These developments added another dimension to the dispute and increased the already heightened tensions.<sup>53</sup> The work carried out by BP in the Alov-Alborz field was put on

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between 2,500 and 6,500 meters below the sea's surface. No wells have been drilled in the contract area, which is the largest block granted in Azerbaijan's sector of the Caspian Sea and reflects the size of the geological structures contained within its boundaries. Available [Online]:

<[http://www.azer.com/aiweb/categories/magazine/63\\_folder/63\\_articles/63\\_socar\\_alov.html](http://www.azer.com/aiweb/categories/magazine/63_folder/63_articles/63_socar_alov.html)> [02 August 2004].

<sup>50</sup> The main implications of the Caspian impasse were not obvious until the informal CIS summit held in the Russian Black Sea resort of Sochi at the beginning of August. The summit was attended by ten CIS heads of state, including three Caspian nations: Russia, Azerbaijan and Kazakhstan. At the meeting Azerbaijan was given unconditional support. Heidar Aliev was quoted as saying Russian President Vladimir Putin had undertaken to "broker a summit of four Caspian nations," cutting Iran out. The message to Iran was loud and clear: former Soviet nations in the Caspian are forming an alliance, and Iran isn't invited. Arkady Dubnov, "Tehran Guns for Caspian Oil," *Institute of War and Peace Reporting*, CRS no. 95, 24 August 2001.

<sup>51</sup> Mustafa Yilmaz, "An Assessment of Turkey's Activities towards the Turkish World," *Eurasian Studies* 21 (Spring 2002): 165-92.

<sup>52</sup> "Irana Gozdagi," *Hurriyet*, 23 August 2001; "Tahran Tirmandiriyor," *Milliyet*, 22 August 2001. See also Erdal Guven, "Akrobatik Diplomasi," *Radikal*, 26 August 2001.

<sup>53</sup> According to Turkish newspapers, Iran was trying to delay the development of the Caspian resources as Iran wished the main export pipeline from Caspian states go through Iranian territory. Since under current conditions, that is not likely to happen, Iran expected to achieve its aims in the future. Turkish newspapers also commented that the Iranian media provoked the issue and pushed the Iranian government to stand up on the issue. Foreign Ministry spokesman Hamid Rıza Asefi stated that "Iran is determined to protect its

hold by BP and Azerbaijan until a solution was found in these contested areas. Iran has been negotiating for months over these oilfields and Iranian officials have said that one solution would be the joint development of the field.<sup>54</sup>

The focus on the legal status of the Caspian Sea shifted along with the new developments in the region. The Russian policy change, and the proceeding bilateral agreements with Kazakhstan in July 1998 regarding the sectoral division of the seabed on the basis of a modified median line and joint use of the surface, left Iran as the only country still adamantly opposing a regime of delimitation.<sup>55</sup> This affected the Russian/Iranian alliance on the Caspian Sea over the legal dispute; with the latest developments, Russia and Iran became opposing parties. The rift between Russia and Iran became more apparent when the Iranian president Khatami walked out of the Ashgabat conference 23–24 April 2002. Apparently, the walkout was a protest against the Russia-Azerbaijan-Kazakh block. Despite long and serious preparations, the conference ended without even a joint statement.<sup>56</sup> The following years, the littoral states of the Caspian Sea continued to hold meetings on the same issues. Although the meeting of foreign ministers in Baku produced some promising results, especially on the demilitarization of the sea, free merchant shipping, and the protection of the ecosystem, the main issue of contention

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rights in the Caspian and we hope that the Azeri government and the oil companies received the message.” *Zaman Gazetesi*, 26 July 2001. Available [Online]:

<<http://www.zaman.com.tr/2001/07/26/dishaberler/dishaberlerdevam.htm#9>> [11 January 2003].

<sup>54</sup> However, in a report published by Radio Free Europe/Radio Liberty, “a U.S. official said there is little chance that Iran will be able to settle its Caspian oil field dispute with Azerbaijan by proposing a joint development. A U.S. company is already part of a consortium for the field, and Tehran has shown no sign that it will drop its claim to 20 percent of the Caspian, clearing the way for an agreement among the five shoreline states. Michael Letyveld, “U.S. Official Disputes Iranian Success with Caspian Project,” *RFE/RL*, 18 October 2002 Available [Online]: <<http://www.rferl.org/features/2002/10/18102002170429.asp>> [13 December 2005]. There are reports about these areas that the Alov-Alborz field may hold up to 9 billion value of oil and gas.

<sup>55</sup> According to Iranians, it was a violation of the existing regime in the Caspian Sea. Quoted in *Tehran Times*, 30 May 1998. Granmayeh, “Legal History of the Caspian Sea,” 37.

<sup>56</sup> *Ibid.*, 37.

remained the same. Although Iran kept insisting on a solution based on joint management and ownership of the modified median line, the developments in the region complicated the Iranian position. By 2003, Russia, Azerbaijan and Kazakhstan had agreed on the demarcation of the seabed on the basis of a modified median line with the sea surface being open to all. Kazakhstan and Turkmenistan agreed on the principle of national sectors in 1997, and the Turkmen accord with Iran in 1997 on the common borders left only the Turkmen Azeri disagreement on the Kypaz/Serdar oilfields.<sup>57</sup> Although from the very beginning the littoral states said that the solution for the legal dispute could be achieved with the participation of the five coastal states, the following years proved that it was the bilateral agreements that could settle the region's conflicting issues. While a final solution was not reached, Iran would be in a difficult situation if Azerbaijan and Turkmenistan reached an agreement on the conflict over the Kypaz/Serdar field.<sup>58</sup>

Iran followed a policy of self interest in the Caspian region from the very beginning, and remained the only littoral state pursuing a regime of joint sovereignty. Iran was blamed by other littoral states for slowing down the developments; some of the littoral states were in need of a solution to start their projects in the Caspian Sea.<sup>59</sup> Iran may eventually yield to the pressure from the other littoral states and agree to the delimitation of the Caspian Sea into national zones. As mentioned above, Iran does not have only economic concerns in the Caspian but also other considerations, e.g., keeping the ex-Soviet republics in check, especially Azerbaijan. For that reason Iran may not

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<sup>57</sup> S. Colakoglu, "Uluslararası Hukukta Hazar'ın Statu Sorunu," 47.

<sup>58</sup> Mustafa Aydın, "Kafkasya ve Orta Asya ile İlişkiler," in *Türk Dis Politikası, Kurtuluş Savaşından Bugüne Olgular, Belgeler, Yorumlar*, vol. 2, ed. Baskın Oran (İstanbul: İletişim Yayınları, 2001).

<sup>59</sup> Kemal Karpaz, "Orta Asya Devletleri, Türkiye ve İranın Dis Politikaları," *Yeni Türkiye* 2 (July/August 1997): 2168–70.

easily agree to sign a formal declaration for the division of the seabed between Iran and Azerbaijan, since that might cause Iran to lose important leverage with its neighbors, as well as foreign companies, on other issues. However Iran, sooner or later, must accept the existence of a *de facto* regime in the Caspian Sea that based on delimitation.<sup>60</sup>

## RUSSIA AND THE CASPIAN SEA: FROM CONFRONTATION TO COOPERATION

Russian policy on the legal status of the Caspian Sea represents a classic example of realist thinking of states pursuing self interest in the international arena. Although there are a number of inconsistencies in Russian policies toward the legal dispute, it could also be interpreted as a change in the interests of Russia, which affected the eventual policy shifts. Like Iran, Russia has been a strong supporter of joint management of the Caspian Sea.<sup>61</sup> During the early years after the breakup of the Soviet Union, Russia, in alliance with Iran, supported the idea of condominium and favored joint utilization of the sea surface and the seabed. Along with Iran, Russia claimed the validity of early treaties between the Soviet Union and Iran. By referring to the Caspian Sea as a lake, Russia denied the applicability of 1982 UNCLOS articles on exclusive economic zones and continental shelf. Having subscribed to these main policies, Russia also acknowledged the fact that the Caspian Sea environment has changed and that there is a need to redefine of the terms of the management and joint use of the sea, which should be realized through a formal agreement among the coastal states. Therefore any unilateral

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<sup>60</sup> Sinker, "The Management of a Transboundary Energy Resource," 72.

<sup>61</sup> Faruk Unal, "Azerbaycan Rusya Iliskilerinde Hazar Sorunu," *Journal of Qafqaz University* 2, no. 2 (1999): 19.

action without the consent of the five littoral states or any activity related to the use of the sea resources would be illegal and unacceptable.<sup>62</sup>

After the establishment of an international consortium in 1994 by Azerbaijan to develop three Azeri oilfields in the Caspian Sea, the legal debate among the littoral states intensified. The initial Russian response to the Azeri move was harsh and strong, and Russia declared this unilateral initiative illegal, claiming that Caspian states were still subject to USSR agreements and laws and the development of marine resources of the Caspian Sea must be resolved unanimously.

While Russia has economic motives for its opposition to the delimitation of the Caspian Sea, the political and geopolitical considerations surpass the projections of economic gain. Russia as the successor of the Soviet Union does not want to see the growing presence of Western oil companies and Western powers in its backyard. As the number of states involved in the Caspian Sea oil development projects increases, the stakes get higher. Similarly, as Western investments grow in the Caspian Sea, Western influence will spread. This might contradict Russian geopolitical considerations. On many occasions, Russian officials stated their dislike for the growing American involvement and influence in the Transcaucasus and the Caspian Sea region. Like Iran, Russia also would not want to see prosperous and politically independent states in the region, where Russia claims historical sphere of influence.<sup>63</sup>

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<sup>62</sup> For more information on the initial Russian approach to legal issues in the Caspian Sea, see Horton and Memedov "Legal Status of the Caspian Sea."

<sup>63</sup> Certainly the Russian and the Iranian moves have an economic motivation, but they have also a common goal that would be "to restrict the sovereign ability of Azerbaijan, Turkmenistan and Kazakhstan to freely develop their offshore oil and gas resources with the active participation of the Western oil companies and governments." Croissant and Croissant, "The Legal Status of the Caspian Sea," 28. Beside these, Russia is not willing to see the former dominions develop a genuine economic independence from Moscow. In fact, it is part of a general Russian policy to keep the former Soviet republics under control and maintain a sphere of influence.



Another issue brought forward by the Russian-Iranian front is the necessity to preserve the delicate ecological balance in the Caspian Sea. Their claim is that joint management of the sea would provide a better arrangement that would preserve the nature and the environment. In fact, it is doubtful the natural balance could be preserved better by a joint committee than by the initiatives of individual states. As Arthur Pizzi points out, “multiple-ownership removes incentives for conservation of the common resources thus causing increased production costs, quicker depletion of the resources and decreased market price for the product due to oversupply. Exclusive ownership, on the other hand, promotes more efficient oil and gas extraction due to lack of competition for the common resource.”<sup>64</sup>

Despite strong Russian opposition, there has been dissension in the Russian policy circles. The foreign ministry’s tough stance was not approved by the Ministry of Energy and the Russian oil companies. Starting in 1995, Russian policy on the legal dispute started to change. First, Russian oil company LUKOIL acquired a share in the Azeri international consortium that Russia had previously condemned. Other reasons also might explain this change in Russian attitude. One reason might be the fact that Russia realized the difficulty of holding onto the initial claims for so long, especially under the pressure coming from the energy ministry and the Russian oil companies. It is also the case that Russia may have realized that it might gain more in a regime of delimitation, especially through joint projects and later on pipelines and transit fees. In addition, Russia might also have feared alienating the old dominions by pressuring on an issue that these republics perceived vital. This could diminish Russian influence over these states

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<sup>64</sup> Arthur M. Pizzi, “Caspian Sea Oil, Turmoil and Caviar: Can They Provide a Basis for an Economic Union of the Caspian States?” *Colorado Journal of International Environmental Law and Policy* 7, no. 2 (Summer 1996): 495–96.

and might push them more towards the West and the United States, which would be even more of a problem for Russia. It might also be that Russia did not want to confront the Western oil companies and the United States on this issue since these powers might resort to use of other leverages at a time that Russia depended on Western assistance to relieve economic hardships. It is hard to say what exactly affected the change in Russian behavior, but it is possible that all of the above reasons may have played a role in pushing Russia toward cooperation. Besides, the new Russian proposal focuses on sharing the seabed, whereas the surface still remains as a property for common use. This would allow Russia to exercise its naval power and trade. Another aspect of this change is that Russia wanted to control the transit routes of the oil export of the ex-Soviet republics by using the delimitation issue as leverage. In August 1995, the Russian ambassador to Turkey, Vadim Kuznetsev, stated that "Russia was ready to modify its position on the legal status of the Caspian Sea, if Azerbaijan agreed to export its oil through Russian pipeline."<sup>65</sup>

Starting in 1995, Russia slowly shifted its tough stance on the issue and made progress through bilateral agreements with the neighboring countries, Kazakhstan and Azerbaijan. Russia proposed a 35–40 mile exclusive economic zone in 1996, and increased its proposal to 45 miles in the Ashgabat meeting in November 1996. A low-level conflict between Russia and Kazakhstan opened the way for bilateral agreements. In 1997, Kazakhstan protested LUKOIL operation in the northern part of the Caspian Sea close to the Kazakh sector. After a period of negotiations, Russia and Kazakhstan agreed to develop these contested areas jointly and in February 1998, a joint drilling agreement was signed between Kazakoil and LUKOIL. In July of that year, the presidents of each

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<sup>65</sup> Quoted in Granmayeh, "Legal History of the Caspian Sea, 21.

state signed an accord on the sectoral division of the seabed. The agreement between Russia and Kazakhstan constituted an example for the further developments in the Sea and helped the emergence of a *de facto* regime in the Caspian Sea. Russia engaged in the same type of negotiations with Azerbaijan on the issue of demarcation and by a protocol signed in Baku in March 1997, both parties agreed on the division of the sea on an equidistance median line principle.<sup>66</sup> Although there has not been an agreement signed by all of the coastal states, the Russia-Kazakh accord continued to affect future developments and caused the relationship between Iran and Russia on the legal status issue to deteriorate slowly over time.

#### KAZAKHSTAN AND THE CASPIAN SEA

Having elaborated on the tough Iranian and Azeri approach to the legal status of the Caspian Sea, we could assert that the Kazakh approach would lie in the middle. Kazakhstan, from the very beginning, supported the idea of delimitation of the Caspian Sea, with an emphasis on the participation of all littoral states on an equal basis in determining a regime suitable for today's environment. Kazakhstan in fact has the largest and most productive oil deposits in the Caspian Sea and the Kazakh government has prioritized the use of available oil and gas reserves for the development of the country. Foreign Minister Gizzatov refers to the 1982 UNCLOS and claims that the UN articles should apply to the Caspian Sea. Although Kazakhstan accepts the validity of the 1921 and 1940 treaties between the Soviet Union and Iran, it draws attention to the fact that those treaties were signed even before the introduction of new concepts such as exclusive zones, seabed, or continental shelf, and therefore those treaties are not suitable for today's

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<sup>66</sup> Granmayeh, "Legal History of the Caspian Sea, 32.

environment.<sup>67</sup> Kazakh officials also assert that those treaties between the Soviet Union and Iran cannot be taken as a legal basis since those treaties do not have any provisions regarding the exploitation of the mineral resources. Despite the fact that Kazakhstan favored the sectoral division of the Caspian Sea, it has taken a fairly positive attitude compared to the rigid and ambitious policies of Azerbaijan. This is partially related to the peculiar Kazakh-Russian relationship, where Russia had tremendous influence over Kazakhstan, especially during the initial phases of transition from the Soviet Union to an independent Kazakh state. It could also be due to the interdependent relationship between Kazakhstan and Russia where Kazakhstan needed Russia on many economic and political issues. Considering the Russian minority in Kazakhstan and the need to keep a friendly relationship with Russia, we can better understand the Kazakh position on the legal status of the Caspian Sea and the careful Kazakh approach not to antagonize Russia. Another aspect of the issue is the Russian pipelines Kazakhstan has to use to transport its oil to outside oil markets. These factors may explain the soft and cooperative approach of the Kazakh officials over time, despite the fact that Kazakhstan had enormous reserves in the Caspian Sea.<sup>68</sup> Within this framework, Kazakhstan offers “other Caspian states to participate in the development of oil and gas deposits in Kazakhstan sector of the seabed of the Caspian.”<sup>69</sup>

Although Kazakhstan tried to find a solution for the legal dispute within a common ground by the participation of all the littoral states, in 1993 it unilaterally took some initiatives and “Kazak government signed an agreement with the Kazakhstan

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<sup>67</sup> Gizzatov, “Negotiations on the Legal Status of the Caspian Sea 1992–1996,” 55.

<sup>68</sup> Gun Kut, *Yeni Turk Cumhuriyetleri ve Uluslararası Ortam: Bagimsizligin İlk Yillari, Azerbaijan, Kazakistan, Ozbekistan, Turkmenistan* (Ankara: T.C. Kultur Bakanligi Yayinlari, 1994).

<sup>69</sup> Ibid., 55–56.

Kazpishelf consortium of western oil companies to explore for oil in the Kazakh sector of the sea. This followed the development of Tengiz oil field by TengizChevroil, a joint venture between Kazakhstan and Chevron.”<sup>70</sup> Kazakhstan participated in all the meetings related to the determination of the legal status of the Caspian Sea, and signed the 1995 Agreement on the Conservation and Utilization of Biological Resources in the Caspian Sea. Kazaks also hosted a session in May 1995 to settle differences between the littoral states. However, the real development with respect to the settlement of differences came through bilateral negotiations. In 1997 and 1998, Kazakhstan and Russia signed an agreement on the demarcation of the seabed and the joint development of the oil fields in contested areas. This became a cornerstone of the creation of a *de facto* regime in the Caspian Sea to which Iran sharply objected. On 27 February 1997, Kazakhstan and Turkmenistan agreed on the demarcation of their sectors in the Caspian Sea, which continued to be in place up to then. In December 2001, Azerbaijan and Kazakhstan reached an agreement on determining their sectors in the Caspian Sea. By the completion of the above agreements with the Caspian littoral states, Kazakhstan basically secured its own sectors in the Caspian Sea.

#### TURKMENISTAN AND THE CASPIAN SEA

Turkmenistan’s policy on the Caspian Sea has been inconsistent. Turkmenistan supported the delimitation of the Caspian Sea but sometime later announced that IT WAS in full accord with Iran and Russia. The Turkmen position in some aspects resembles the Kazakh approach. While Turkmenistan in 1993 enacted a Law on State Border that clearly demarcated maritime and territorial borders, it also expressed its desire for a

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<sup>70</sup> Sinker, “The Management of a Transboundary Energy Resource,” 66.

common solution.<sup>71</sup> In contrast with the Common Border Law, Turkmenistan was among the first states to support the 1992 Iranian proposal for cooperation in matters of the Caspian Sea.<sup>72</sup> This could be explained by the Turkmen government's inexperience in international relations and the absence of a national policy formulation on the Turkmen side. Another explanation for the inconsistency might be the changing nature of relationships with the Caspian neighbors and the implicit pressure coming from Russia and Iran. As with the changing nature of interstate relationships, Turkmenistan's need for support from Russia and the huge natural gas deal with it might have shifted Turkmenistan's view on the legal status of the Caspian Sea.

#### *Turkmen Azeri Dispute and the Turkmen Borders*

The absence of a clear-cut regime in the Caspian Sea has caused some tension among the littoral states, especially in areas where states border each other. One example of this kind of dispute is the incident between Turkmenistan and Azerbaijan over Kypaz/Serdar oilfields, where each state claims ownership. In July 1997, Azerbaijan signed an agreement with two Russian oil companies, LUKOIL and Rosneft, to develop the Kypaz/Serdar area, which is located 145 km off the coast of Azerbaijan. The Azeri side claims that the area was discovered in 1959 by Azeri experts and the first oil well

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<sup>71</sup> In 1992, Turkmenistan passed its "Law On State Borders," one provision of which claimed for Turkmenistan a 12-mile coastal zone (not 10 miles) bordering the so-called Astara/Hasanqoli Line on the south. This line crosses the Caspian Sea and connects the points of exit of the land border of the Astara village on the western shore and the Hasanqoli village on the eastern shore. Irina Paliashvili. "Caspian Legal Dimension: Investment Risk in South Caspian Delimitation; Discussion of the Legal Status of the Caspian Sea," presentation for the International Energy Agency Roundtable on Caspian Oil & Gas Scenarios, 15 April 2003, 7. Available [Online]:

<<http://www.iea.org/textbase/work/2003/caspian/Palias.pdf>> [27 May 2006].

<sup>72</sup> In 1993 and 1995, Turkmenistan entered into agreements with Western oil companies to develop offshore oilfields within the Turkmen sector with the participation of the Turkmen oil company Chelekenefit. Contrary to the Turkmen support for Iran and Russia on many occasions, Turkmenistan continued its unilateral initiatives in 1997 and 1998, when it issued licenses for offshore drilling rights in its newly-declared 12-mile coastal zone.

was dug in 1986, with the first year of Azeri production totalling more than 300 million tons.<sup>73</sup> Turkmenistan protested the deal, claiming that the area belongs to Turkmenistan since it is closer to Turkmenistan and therefore falls within the Turkmen sector. Russia had to withdraw from the project on the grounds that Russia itself criticized unilateral initiatives in the Caspian Sea and the fact that Turkmenistan on many occasions sided with Russia over the legal dispute. Despite the efforts made by Azerbaijan to find a common solution for the contested areas, the status of the Kypaz/Serdar oilfields remains unresolved.

Another dispute occurred between Iran and Turkmenistan when Turkmenistan issued a tender for eleven blocks that were located on the Iranian border. Turkmenistan later withdrew its tender for the Iranian claimed fields when Iran voiced its objection. After these developments, Turkmenistan and Iran agreed on the joint utilization of the non-clarified areas until a final resolution to the legal status of the Caspian Sea could be found.

## CONCLUSIONS

More than a decade after the first major contract in the Caspian Sea, the legal status of the Caspian Sea remains unsolved. There is no joint agreement by the coastal states on the use of the sea resources. Despite numerous initiatives, conferences, meetings and talks among the riparian states, neither a regime nor an organizing body emerged to manage the transboundary resources of the Caspian Sea. One of the most striking factors that affected the legal status issue in the Caspian Sea is the fact that each

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<sup>73</sup> Natiq Aliyev, "Kapaz: Socar's Official Statement," Available [Online]: [http://www.azer.com/aiweb/categories/magazine/53\\_folder/53\\_articles/53\\_statement.html](http://www.azer.com/aiweb/categories/magazine/53_folder/53_articles/53_statement.html) [19 February 2007].

nation state followed self-interest policies that would be economically and politically favorable for themselves. The tough stance of Azerbaijan and Iran on opposite ends proves the existence of realist thinking in the making of their policies. As we have discussed above, existence of other motives, such as geopolitical considerations caused a great deal of controversy among the riparian states. In the end, the states of the Caspian Sea could not reach a common solution with respect to the settlement of their differences on the legal status of the Caspian Sea.

However, the deadlock on the achievement of a common solution has been partially bypassed through bilateral negotiations. As the newly independent states enthusiastically pursued a solution to start oil production in the Caspian Sea, eventually some sort of regime or understanding emerged especially in the northern part of the coasts. The Russian initiatives and efforts to find a solution to the legal issue in the Caspian Sea greatly contributed to the emergence of a *de facto* regime. By the signing of the bilateral agreements among Russia, Kazakhstan, Azerbaijan and Turkmenistan, the Caspian states agreed to divide the seabed on the basis of a modified median line. From the very beginning, the littoral states continuously sought a common solution acceptable to all the participants. However, the latter developments proved that in the context of the Caspian Sea, bilateral agreements were much more effective. The role of Russia in the emergence of some sort of cooperation should be acknowledged. The shift in Russian policy from condominium to sectoral division of the seabed is one of the cornerstones of the improvement of interstate relations in the Caspian Sea with regard to the legal issue. Certain compromises have been made on both sides, but the littoral states that agreed to divide the seabed were satisfied with what they achieved. Russia maintained its



dominant status on the sea, as the sea surface remains an area for common use for navigation, fishery and transportation. Newly independent states mainly focused on the offshore oil drilling in the Caspian Sea, and with the signing of the agreements they were granted the right to develop the oil deposits in the Caspian Sea freely. Eventually, the sectoral division of the seabed worked well for Russia, Kazakhstan and Azerbaijan, and in some ways for Turkmenistan but not for Iran. Iran currently is not a part of the emerging regime and still favors a solution based on joint management or equal sharing where each individual state gets 20 percent of the seabed and the surface.

As we have suggested from the beginning, the emergence of cooperation among the Caspian States has been quite slow despite the fact that littoral states of the Caspian Sea urgently needed a regional solution in order to start oil production. Geopolitical considerations and pursuit of self-interest policies in the region, and the existence of divergent economic and political policies, impeded the settlement of disputes over the legal status of the sea. Even after a temporary settlement of the differences in the Caspian Sea, we could assert that each individual state continued to follow policies that favored themselves the most. The Russian policy shift from condominium to division of the seabed could be construed as a compromise from Russian interests. However, the long-lasting legal status dispute is only one aspect of the trans-boundary interstate relations in the Transcaucasus region. Issues are in many cases tied to each other, and compromise in one area might mean a gain in another. In that respect, the Russian move in the legal dispute should be viewed from a broader perspective, as it is directly related to the issue of pipelines, an issue that has dominated the agenda more than any other issue in the Caspian Sea region.

## CHAPTER IV

## THE PIPELINE DILEMMA IN THE CASPIAN SEA: DREAM OR REALITY?

Another aspect of the Caspian oil diplomacy or the so called new great game is the complex set of issues related to the transportation of Caspian oil.<sup>1</sup> The Caspian Sea is a landlocked sea and the only connection to the outside world is the Don-Volga River that passes through Russian territory to Baltic Sea.<sup>2</sup> The oil producing countries of Caspian Sea have to rely on the cooperation of their neighbors to be able to transport the oil produced in the region to the world oil markets. As each country had its own preferences and desires as to which route and method to use as a means for transportation, the pipeline dilemma in the Caspian Sea became an issue of contention among the countries involved in the affairs of the Caspian Sea. Alongside the technical and geological / geophysical difficulties that prevented the development of petroleum exploration and production, the competition over the control of pipelines and the expected economic benefits deeply affected the Caspian oil development.

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<sup>1</sup> Lutz Kleveman compares the today's politico-military environment in the region to the 19<sup>th</sup> century struggle between British and Russian Empires. "Now more than a hundred years later, great empires once again position themselves to control the hearth of the Eurasian landmass left in a post-Soviet power vacuum. Today there are different actors and the rules of the neocolonial game are far more complex than those of a century ago: The United States has taken over the leading role from the British. Along with the ever present Russians, new regional powers such as China, Iran, Turkey and Pakistan have entered the arena, and Transnational Corporations (whose budgets far exceed those of many Central Asian countries) are also pursuing their own interests and strategies." Lutz Kleveman, *The New Great Game: Blood and Oil in Central Asia* (New York: Grove Press, 2003), 3.

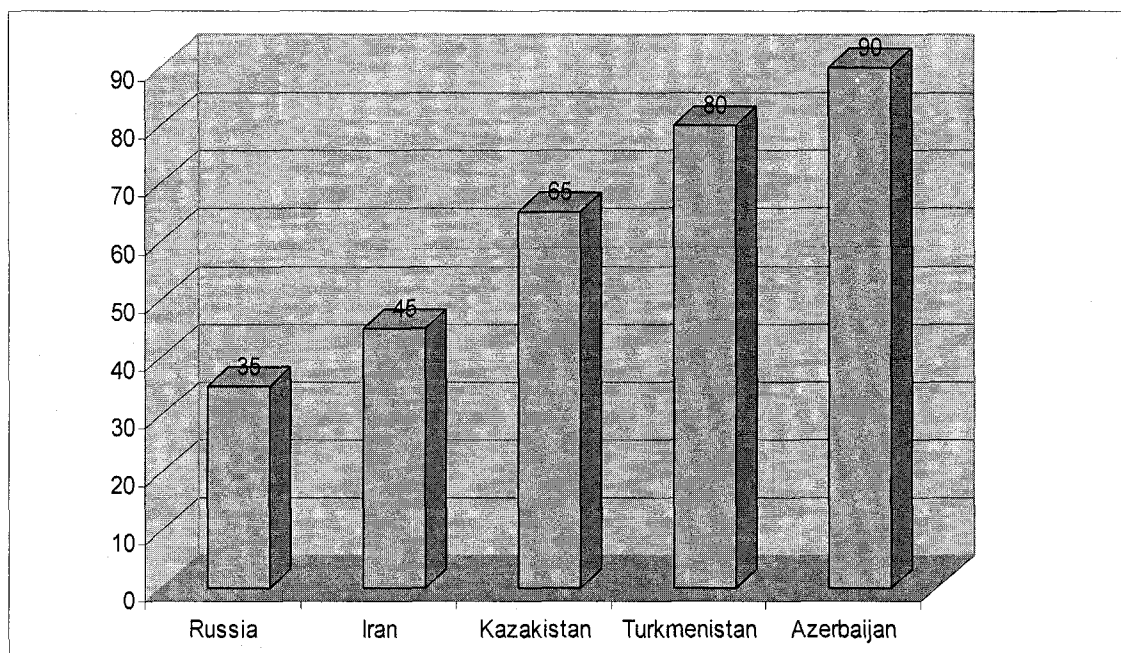
<sup>2</sup> "Europe's longest river and the principal waterway of western Russia, it rises in the Valdai Hills northwest of Moscow and flows 2,193 miles (3,530 km) southeastward to empty into the Caspian Sea. It is used for power production, irrigation, flood control, and transportation. The river has played an important part in the life of the Russian people, and in Russian folklore it is characteristically named Mother Volga." "Volga River," Available [Online]: <<http://www.answers.com/topic/volga-river>> [4 August 2006]. "The Don is one of the major rivers of Russia. It rises near Tula, southeast of Moscow, and flows for a distance of about 1,950 km (1,220 miles) to the Sea of Azov. From its source, the river first flows southeast to Voronezh, then southwest to its mouth. The main city on the river is Rostov on Don, its main tributary the Donets. At its easternmost point, the Don comes near the Volga, and the Volga-Don Canal (length ca. 105 km (65 miles)), connecting both rivers, is a major waterway." "Don River: Russia," Available [Online]: <[http://en.wikipedia.org/wiki/Don\\_River,\\_Russia](http://en.wikipedia.org/wiki/Don_River,_Russia)> [4 August 2006].

In this chapter, I would like to explore the complex interaction among state and non-state actors on the issue of pipelines and find out how the behavior of each actor on the Caspian pipeline issue affected the development of cooperative or non-cooperative outcome. I would also like to draw on some contending theories of international relations on the issue of cooperation and analyze the policies of the diverse actors from a theoretical perspective. As an actor in pipeline politics, Turkey's involvement proved to be a decisive factor. In this chapter I would also like to devote more space on Turkey and its role in the whole Caspian pipeline negotiations.

The issue of control and profit attached to the control of the oil has manifested itself in the form of state confrontation, which has simultaneously slowed down the implementation of oil extraction projects in the region. The Russian policy to maintain influence in the Caspian region and the desire of the littoral states to break away from Russia's stranglehold and gain complete independence has emerged as an issue of serious political confrontation on the pipeline discussions. The complexity of the whole pipeline tangle doubled with the involvement of the outside actors who had economic and political interests in the Caspian region. The involvement of the United States as an outside actor and as a strong supporter of the regional states and their independence and its special emphasis on Iran's role added another dimension to the transportation of oil and pipeline discussions.

The very economic and political development of the former Soviet republics and strengthening of their independence depend on the revenues they receive from petroleum exports. It is an issue of utmost importance for the petroleum producing countries of the Caspian Sea to be able to secure a stable export route and a dependable pipeline system.

Share of oil and gas in Azeri exports amounts to 90 percent, while it is 80 percent in Turkmenistan and 65 percent in Kazakhstan.<sup>3</sup> (See graph below.) The oil companies which have already invested billions of dollars in the Caspian oil are interested in the most feasible and economical means of transportation. On the other hand, the priorities of some external powers, i.e., Turkey, Iran and the United States, are a bit different than those of the regional states and oil companies. The complex web of interests and the multiplicity of actors involved in the whole Caspian oil pipeline game created an interesting interaction among states and non-state actors.<sup>4</sup>



Graph 6: Share of Oil & Gas in Total Export

Source: World Bank Country Briefs and Azerbaijan Ministry of Finance Fact Sheet

<sup>3</sup> Data gathered from World Bank Country Briefs and Azerbaijan Ministry of Finance Fact Sheet.

<sup>4</sup> Hans Morgenthau says that, "the idea of interest is indeed of the essence of politics and unaffected by the circumstances of time and place." Morgenthau, *Politics among Nations*, 10.

As Mustafa Aydin suggests, securing a major share in these pipelines will provide enhanced influence throughout the region.<sup>5</sup> Export of large scale oil to the world markets from the Caspian Sea may provide great opportunities for economic development and prosperity for the Caspian oil producers; especially Azerbaijan, Kazakhstan and Turkmenistan.<sup>6</sup> However, the course of the developments and the ability of the states to manage their differences will be an important factor in the realization of their goals for economic development. In a world of increasing oil prices, the competition over resources and interstate rivalry maybe even more fierce than expected.<sup>7</sup>

Table 6:  
Oil Prices by Year

|                        | 1999  | 2000 | 2001  | 2002  | 2003  | 2004  | 2005  |
|------------------------|-------|------|-------|-------|-------|-------|-------|
| Dubai–Spot crude price | 17.25 | 26.2 | 22.81 | 23.74 | 26.78 | 33.64 | 49.35 |
| Brent–Spot crude price | 17.97 | 28.5 | 24.44 | 25.02 | 28.83 | 38.27 | 54.52 |

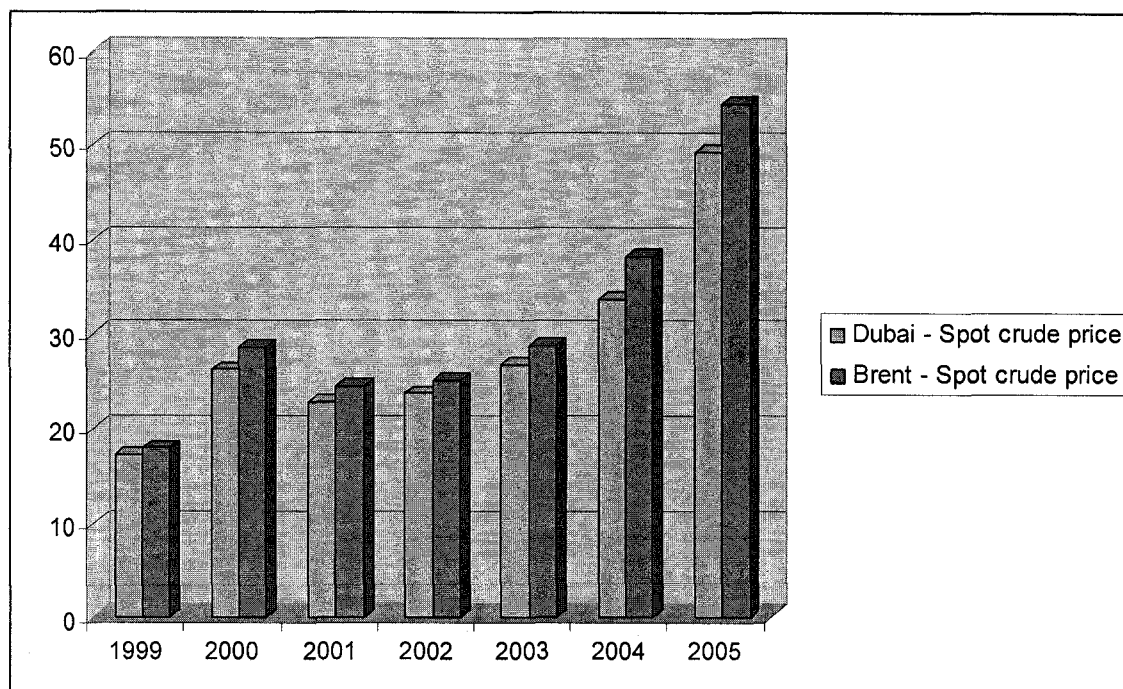
*Oil Prices: US dollars per barrel*

*Source: BP Statistical Review of World Energy 2006*

<sup>5</sup> Mustafa Aydin, "Oil, Pipelines and Security: The Geopolitics of the Caspian Region" in *The Caspian Region*, ed. Moshe Gammer and Frank Cass, 1<sup>st</sup> ed. (New York: Routledge, 2002), 6, 14–16.

<sup>6</sup> In 2003, Turkish energy Minister Hilmi Guler told that BTC pipeline is one of the biggest projects of the 21<sup>st</sup> century in the sense that this pipeline will provide energy to the European countries where the demand for oil is expected to increase in the coming decades. Faruk Arslan, *Hazarin Kurtlar Vadisi: Petrol Imparatorlugundaki Guc Savaslari* (Istanbul: Karakutu Yayinlari, 2005), 300.

<sup>7</sup> According to the estimates taken from International Energy Agency, the global demand for energy will rise by 59 percent by 2030 with 2/3 of this demand coming from developing countries particularly from China and India. U.S. demand for oil is also rising while U.S. domestic production is set to fall by 12 percent over the next decade. "Boom or Bust in the Caspian?" *Euromoney* (January 2005). Also Available [Online]: <[www.euromoney.com](http://www.euromoney.com)> [21 March 2005].



Graph 7: Oil Prices by Year (View in 3D Graph)

Source: *BP Statistical Review of World Energy 2006*

## EARLY OIL DEVELOPMENT AND PIPELINES

Despite the fact that Baku and the Caspian region provided half of the world oil production at the beginning of the twentieth century, the importance of the region as an oil producer declined after World War I and II. Soviet policymakers shifted their focus to Siberia and the whole Russian oil pipeline network redesigned to serve the domestic need and the export to Western countries.<sup>8</sup> The oil from the Caspian region was used to serve domestic needs rather than export. Therefore, during the Soviet era, no major pipeline has been built to carry oil from the Caspian region to the outside world. The Azeri and Kazakh oil production were linked to the internal Russian pipeline network and carried to

<sup>8</sup> Jennifer Delay, "The Caspian Oil Pipeline Tangle: A Steel Web of Confusion" in *Oil and Geopolitics in the Caspian Sea Region*, eds. Michael P. Croissant and Bülent Aras (Westport, CT: Praeger, 1999), 45.

Russian refineries for domestic use. After 1991, Caspian oil producers found themselves in a very difficult situation in terms of oil export. On one hand, they were heavily dependant on the revenues that might come from oil export; on the other hand they did not have a stable and a secure outlet for the export of the oil produced in their countries. Azerbaijan was only linked to a Russian pipeline (Baku-Grozny-Novorossiysk) passing through war-torn Chechnya towards the Russian port at Black Sea. The Baku-Supsa pipeline had not been used in years and needed a fundamental renovation to be operational. The situation in Kazakhstan was no different than Azerbaijan. The only export line for Kazakhstan was the Atyrau-Oask-Samara pipeline that needed a major upgrade to be useful in exporting Kazakh oil. The small pipeline would not have been sufficient to carry even a fraction of Kazakh oil production.

Even then, the oil producers in the Caspian Sea region had to deal with the Russian policies regarding the use of the internal Russian pipeline system. "The old Soviet system had served all the republics of the Soviet Union on an integrated basis, but now the natural preference of the Russian companies would be to use the system for Russian energy first, and secondarily to carry oil and gas produced by fellow Soviet producers that could now be regarded as commercial rivals."<sup>9</sup> Caspian oil producers found themselves in an urgent need to find an export route that could sustain Caspian oil production. On the other hand, Azerbaijan and Kazakhstan started looking for alternatives to reduce or eliminate their dependence on Russia and Russian pipeline system in the long run, though it was much more difficult for Kazakhstan to bypass Russia totally because of its geographical location. As the investment by the oil

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<sup>9</sup> John Roberts, "Pipeline Politics," in *The Caspian: Politics, Energy and Security*, ed. Shirin Akiner (London: RoutledgeCurzon-Taylor Francis Group, 2004), p. 77.

companies grew, pipelines became an issue for both oil producing countries and oil companies which already have invested huge amounts of money in the Caspian oil projects. Before starting with the complex and long-lasting negotiations among the Caspian states, oil companies and external powers, I would like to cover some of the basic issues related to pipeline discussions.

## MAIN PIPELINE PROJECTS AND PROPOSALS

As soon as the need for alternative routes for the export of Caspian oil became apparent, the Azeri and Kazakh government persistently worked to develop new export routes either independent of Russia or less susceptible to Russian control while still having to remain on good terms with Moscow to ensure that their existing oil and gas systems were not jeopardized.<sup>10</sup> With the involvement of oil companies and external players there has been a plethora of proposals and projects to transport Caspian oil. One of the factors behind the multiplicity of the proposals is the transit fees that host states would collect for a long period of time once the pipes have been laid. The neighboring countries in the region offered their territories as a passage to pipelines for the Caspian oil. This has created a great scale of competition among the major proposals and has it also caused a great deal of confusion over the course of negotiations for the oil producing countries with regard to the choice they had to make under prevalent circumstances.<sup>11</sup> Below is a summary of existing pipelines and contending proposals for the coming years. The discussions over the main export pipelines and the complex

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<sup>10</sup> Ibid.

<sup>11</sup> Gawdat Bahgat, "Regional Report: The Caspian Sea: Potentials and Prospects," *Governance: An International Journal of Policy and Institutions* 17, no. 1 (January 2004): 119.



negotiations among states and non-state actors will be covered in the coming sections of this chapter.

## EXISTING PIPELINES

### *Atyrau-Samara Pipeline*

Atyrau-Samara Pipeline was the largest export pipeline for Kazakhstan before the construction of CPC (Caspian Pipeline Consortium) and Kazakhstan exported almost all of its early oil production through this northern route that connects Caspian port of Atyrau to Russian Ural refinery at Samara and then connects with Russia's main East-West Druzhba system.<sup>12</sup> The pipeline capacity was increased from 240,000 bbl/d to 300,000 bbl/d with the addition of another pumping station.

### *CPC: Caspian Pipeline Consortium*

It is one of the biggest projects to carry Kazakh oil from Tengiz oil reserves to Russian Black Sea port of Novorossiysk. The CPC project was carried out by the governments of Russia, Kazakhstan and Oman in cooperation with a consortium of oil companies headed by Chevron. CPC consists of the upgrade of existing pipelines in Kazakhstan which connects to Russia and reaches to Novorossiysk. After its completion, the 1512 km long pipeline went into use and on October 13, 2001 first crude oil was loaded onto a tanker at the port of Novorossiysk on Black Sea.<sup>13</sup> With the new additions

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<sup>12</sup> In June 2002, Kazakhstan and Russia signed a 15-year oil transit agreement under which Kazakhstan will export 340,000 bbl/d of oil annually via the Russian pipeline system. Russia's trade ministry also pledged to increase the capacity of the line to around 500,000 bbl/d. As the CPC project grows with Kazakh production, absolute volumes though Atyrau-Samara are expected to grow, but this pipeline will become relatively less significant." "Kazakhstan: Background," Available [Online]: <<http://www.eia.doe.gov/emeu/cabs/kazak.html>> [12 February 2006].

<sup>13</sup> For details see, "Caspian Pipeline Consortium: General Information," Available [Online]:

and upgrades and the additional pumping stations, CPC is expected to carry 67 million tons of oil annually. (1.35 million bbl/d by 2009, 2.5 times the current capacity)

### *Baku-Supsa*

An existing oil pipeline system from the twentieth century which Nobel brothers used to transport oil from Baku to Georgian city of Supsa on Black Sea provided an opportunity for the transportation of early Azeri oil and in 1998 the construction and upgrade of the old system completed with an initial capacity of 115,000 bbl/d.

### *Baku-Novorossiysk*

It runs from the oil terminals outside of Baku to Novorossiysk, passing through Chechnya. It had an 180,000 bbl/d initial capacity but the flow of oil had never been stable due to the war between Russia and Chechnya.<sup>14</sup>

### *Baku-Tblisi-Ceyhan*

Supported by the governments of Azerbaijan, Kazakhstan, Georgia, Turkey and the United States, Baku-Ceyhan represents one of the biggest projects in the Caspian oil development. It runs from Baku to the Turkish marine terminal of Ceyhan at the

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<<http://www.cpc.ru/portal/alias!press/lang!en-us/tabID!3357/DesktopDefault.aspx>> [31 July 2006].

<sup>14</sup> "Baku-Novorossiysk pipeline ("northern route"), which sends approximately 50,000 bbl/d of Azeri (and exclusively SOCAR) crude oil to the Russian Black Sea. The Baku-Novorossiysk pipeline closed briefly in late June 2004 after oil thieves set off an explosion when they attempted to steal oil from the pipeline. The Azeri state company expects to begin reducing oil exports via the Baku-Novorossiysk pipeline in August 2005 in order to divert crude to the BTC line, once it becomes operational. Some Azeri government officials have hinted that SOCAR will stop using the Novorossiysk route once BTC becomes fully operational because it will no longer make sense to have higher quality Azeri crude oil mixing with Russian-based Urals blends. The crude oil mixing has decreased the price of pure 'Azeri light' at the port of Novorossiysk by as much as \$4–5 per barrel. AIOC will, however, continue to export oil via pipeline and rail from Baku to Supsa and Batumi on the Georgian Black Sea coast." "Azerbaijan: Background," Available [Online]:

<<http://www.eia.doe.gov/emeu/cabs/azerbjan.html>> [17 June 2006].

Mediterranean Sea. 1,780 km (1,100 miles) long pipeline passes through the territories of Azerbaijan, Georgia and Turkey, and is designed to carry a million bbl/d (50 million tons of oil). According to the initial estimates of oil production by the AIOC (Azerbaijan International oil Company), Baku-Ceyhan should be able to serve the Azeri needs even when the production is expected to peak around 2010–2014.<sup>15</sup> “The BTC pipeline project cost an estimated \$3.7 billion, with BP as operator. The pipeline was officially inaugurated at the Sangachal terminal, near Baku, by President Ilham Aliyev of the Azerbaijan Republic, President Mikhail Saakashvili of Georgia and President Ahmet Sezer of Turkey, joined by President Nursultan Nazarbayev of Kazakhstan on 25 May 2005.”<sup>16</sup> Almost a year after its start, on June 13, 2006 the first oil loaded onto tankers and BTC pipeline officially became fully operational. In the opening ceremony of the BTC pipeline, the Turkish President of republic called the project the “Rising Star of the Mediterranean.”<sup>17</sup>

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<sup>15</sup> The pipeline route passes over 1,768km (1,100 miles) through the countries of Azerbaijan (445km), Georgia (245km) and Turkey (1,070km). In doing so it reaches an altitude of 2,800m as it passes across the Caucasus Mountains and East Anatolia. The pipeline crosses the land of 20,000 individuals and companies who have been compensated with a share of over \$133 million for the acquisition of rights to the small portion of their land where the pipeline runs. Although the pipeline is underground and the land reinstated on top, all that remains visible are eight pumping stations (two each in Azerbaijan and Georgia and four in Turkey). “Baku-Tbilisi-Ceyhan (BTC) Caspian Pipeline,” Available [Online]: <<http://www.hydrocarbons-technology.com/projects/bp/>> [21 July 2006].

<sup>16</sup> BP holds a 30 percent stake in the consortium running the pipeline. Other consortium members include Azerbaijan's state oil company SOCAR (25%), Amerada Hess (2.36%), ConocoPhillips (2.5%), Eni (5%), Inpex (2.5%), Itochu (3.4%), Statoil (8.71%), Total-FINA-ELF (5%), TPAO (6.53%) and Unocal (8.9%). The pipeline was constructed by, and will be managed by, the consortium company Baku-Tbilisi-Ceyhan Pipeline Company (BTC Co). Ibid. For more details on the technical information about the BTC pipeline see “Baku-Tbilisi-Ceyhan Pipeline Inaugurated on May 25,” *Petroleum Economist* 72, no. 7 (July 2005).

<sup>17</sup> “Türkiye’yi Petrol Ussü Yapan Yüzyılın Projesi Büyük bir Törenle Başladı,” *Milliyet Gazetesi*, 13 July 2006, Available [Online]: <[www.milliyet.com.tr/2006/07/13/son/sonsiy16.asp](http://www.milliyet.com.tr/2006/07/13/son/sonsiy16.asp)> [21 July 2006].

## PROPOSED PIPELINES

### *Kazakhstan-China*

In 1997, the governments of Kazakhstan and China signed an agreement to build a pipeline from Atasu in northwest Kazakhstan to Alashankou in China's northwestern Xingjian region to carry Caspian oil to serve the growing energy demand of China. The project had an estimated cost of 850 million dollars and originally expected to be operational by 2006.<sup>18</sup> The first section of the pipeline was completed in 2003 and the Kazakh-China pipeline will have an initial capacity of 200,000 bbl/d, which maybe expanded to 400,000 bbl/d in the following years. The 1860 km long pipeline faces major challenges as it passes through seismically active territories. The Kazakh-China pipeline will only carry a small percentage of China's demand for oil, at about 5 percent as China has risen to the world's second oil consumer.

### *TCP: Trans-Caspian Pipeline*

This is originally intended to carry a 16 bcm/y of Turkmen gas to Turkey through a pipeline laid under the Caspian Sea. It was planned to cross the Caspian Sea to Azerbaijan and Georgia to the Turkish city of Erzurum.<sup>19</sup> The project initially was supported by the governments of the United States, Turkey, Azerbaijan and

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<sup>18</sup> The pipeline will extend 988 kilometers from the Kazakhstan oil terminal in Atasu to the Chinese railway station in Alashankou. Its carrying capacity will be 10 million tons a year at the first stage, then will increase up to 20 million tons at the second stage and could even reach up to 50 million tons in the long term. Construction should be completed at the end of this year, and Kazakhstan hopes to begin the first deliveries of oil in 2008. Alexander Sukhanov, "Caspian Oil Exports Heading East," *Central Asia*, 9 Feb 2005. Also Available [Online]: <[http://atimes.com/atimes/Central\\_Asia/GB09Ag02.html](http://atimes.com/atimes/Central_Asia/GB09Ag02.html)> [28 August 2006].

<sup>19</sup> See *Avrasya Dosyasi TIKa Bulteni*, July 1999 and *Avrasya Dosyasi TIKa Bulteni* (October 1999).

Turkmenistan to establish another East-West corridor alongside with BTC.<sup>20</sup> However the Azeri government pulled its support from the project when the issue between Turkmenistan and Azerbaijan turned into a competition for Turkish gas markets after the discovery of Azeri gas fields in Shah Deniz.<sup>21</sup> Although the parties had optimistic views about the project around 1998–99, the disagreement on the side of the Azeri and Turkmen government virtually ended the possibility of its implementation especially when the Turkmen government cut a deal with Russia on the sale of Turkmen Gas to Russia and to other republics through the Russian internal pipeline network.<sup>22</sup>

#### INTERSTATE COOPERATION IN THE CASPIAN SEA: THE EARLY OIL DEBATE

As the investment in oil exploration and development in the Caspian Sea continued, the oil producing countries and the oil companies had to work on the transportation of current production and the huge volumes expected to be produced in the following years. Therefore it is possible to analyze the transportation of Caspian oil and pipelines issue in two phases. The first part is about the transportation of small amounts of oil to provide revenue for the producers. The second phase represents an important stage in the Caspian oil development as it might affect the stability of the long term oil industry and transportation of oil in the region

Despite the existence of differences among the major players, policies of the involved actors proved to be conducive to cooperation during the early phases of the

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<sup>20</sup> Hakki Buyukbas, "Dunya Siyaseti: Kuresellesme, Bolgesellesme ve Turkiye," *Avrasya Dosyasi*, no. 1 (2004).

<sup>21</sup> Semih Idiz, "Trans Hazar: Boru Hatlari Konusu Arap Sacina Dondu," *Star Gazetesi*, 3 April 2000.

<sup>22</sup> For more details see John Roberts, "Energy Reserves, Pipeline Routes and the Legal Regime in the Caspian Sea," in *The Security of the Caspian Region*, ed. Gennady Chufrin (Oxford University Press, 2001), 32–68.

negotiation for early oil. Azerbaijan was mainly concerned about securing an outlet for its already produced oil. Although Azerbaijan clearly tried to avoid dependence on Russia, it also realized the importance of staying on good terms with it for long term stability in the region. The role of Russia in the Nagorno-Karabakh conflict and the Russian involvement in the internal conflicts in Georgia clearly affects the policies of the Caspian states. Therefore Azerbaijan was also willing to go for an option in which Russia was also included to certain levels such that Russia would not resort to use of other means to influence the developments. The main Russian policy was the control of the transportation of the Caspian oil for many reasons. First of all, Russia wanted to maintain a superior status in the region. Holding the pipelines for oil export in control was seen as a way of maintaining a good level of influence over the countries of the Caspian states and also over the developments in the coming years. The economic benefits that would come with the pipelines are undoubtedly an important factor in the policies of the involved parties. As the transportation of oil and pipelines would yield easy long term benefits, the push for favorable options intensified on all sides. As an example to the benefits that host nations collect from these pipelines, “CPC has recently presented its Shareholders with a comprehensive investment decision package to support expansion of the Project to its full capacity of 67 million tons – 1.4 million barrels a day, as was envisaged in the originally approved design of the pipeline system. Implementation of this project, which will assure the long-term financial success of CPC, is expected to generate revenues to the Russian Federation between \$16 and \$18 billion. Since operations began, CPC has contributed \$650 million to the Russian budget in taxes, fees and contributions. CPC employs directly or indirectly around 1,500 personnel in

Russia and spends over 85 percent of its annual budget locally.”<sup>23</sup> AIOC in many occasions stated its interests and desires to move forward with the most feasible and beneficial options. However, in the complex negotiations among the actors, geopolitical considerations most of the time dominated the thinking of the states.

As for the early oil, despite prevalent policies and complexities, the negotiations on the pipelines seem to be little bit of a soft confrontation among actors rather than being involved in a deadlock situation. For example, the U.S. government also wanted to eliminate the dependence of the Caspian states on Russia; however, it did not push for an option that would completely exclude Russia from the oil business in the region. As for the early oil, the main U.S. policy was the diversification of the pipelines to eliminate a complete dependence on a single route. As the Russian government pushed for Baku-Novorossiysk as a main outlet for Azeri and Kazakh oil, the United States and the Azeri government insisted on the availability of a second route; Baku-Supsa. During the negotiations, Baku-Supsa emerged as a second option for the export of early Azeri oil. Although an Iranian route as proposed by the government of Iran on many occasions could have economically and technically been more feasible and easier for the Caspian oil to reach open seas for export, the Americans insisted on two exit routes for the early oil and the exclusion of Iran from any type of oil transaction.<sup>24</sup> “Zbigniew Brzezinski

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<sup>23</sup> “Caspian Pipeline Consortium Loaded Its 800th Tanker,” Caspian Pipeline Consortium, Press Release, April 7, 2006. Available [Online]:

<<http://www.cpc.ru/portal/alias!press/lang!en-US/tabID!3474/DesktopDefault.aspx>> [19 June 2006].

<sup>24</sup> The Iranian option includes oil swaps with the Caspian countries. Iran proposes to buy oil from Caspian nations for its domestic use and agrees to pay for it in kind by making it available on Kharg Island for export to world markets. The Iranian government awarded an Iranian oil company with 350 million dollars for a pipeline project that would connect Iranian port Neka on the Caspian Sea to the refineries in the country. The 325 km long pipeline however could not materialize because of the financial problems that the Iranian government could not finance it on its own and the foreign investment could not be secured. Here is the details of the Iranian Proposals for the transportation of Caspian oil by way of Iran:

delivered a letter from president Clinton to Aliyev stating the American preference for the second pipeline while offering assistance for Nagorno-Karabakh conflict. Shortly afterwards, president Bill Clinton placed a phone call to the Azeri President to assert the significance to have two exit routes for the early oil. Clinton could also convince Aliyev—counter the Baku’s initial interest—to exclude Iran from the early oil business.”<sup>25</sup>

After the agreement on the double route for the early Azeri oil, the Baku-Novorossiysk pipeline became operational in late 1997 with a capacity of 340,000 bbl/d on the Russian side. However, the Baku-Novorossiysk line proved to be an unstable route

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**Phase I:** Crude Oil for Tehran & Tabriz Refineries: The combined processing capacity of these two refineries currently stands at 350,000 b/d which are primarily supplied by Iran's northern oil fields and further supplanted by a 40,000 b/d pipeline directly linked to the Tehran Refinery from Neka port in the Caspian Sea. In this phase it is foreseen that a 390km., 32 inch diameter pipeline with a capacity of 370,000 b/d will be constructed from Neka directly to Tehran and subsequently be connected to the Tabriz refinery. This plan also foresees the construction of oil storage facilities and the reconfiguration of the Tehran and Tabriz refineries so as to be able to effectively refine Caspian crude. It is foreseen that the project will take two years to implement. International Tender documents were released concurrently in Tehran and London and evaluations are now under way.

**Phase II:** Refinery and Pipeline Modifications: In this phase it is foreseen that the refineries of the cities of Isfahan and Arak would also be geared towards the processing of Caspian crude. To achieve this objective, the following steps are foreseen:

- (i) Reversal of the flow of the existing pipeline between Tehran to Isfahan and Tehran to Arak.
- (ii) Transfer of oil from Northern Iran to Tehran via a new line from Neka, originating from Kazakhstan and Turkmenistan and/or a new route from the Port of Anzali or Baku, depending on the oil swap applications.

It is thus foreseen that in Phase II, the capacity for crude oil transfers could rise by 450,000 b/d. Investment is foreseen to take place concurrent with development within the region.

**Phase III:** New Pipelines: In this phase it is foreseen that Caspian Oil would be fully capable of being transferred to Iran's southern oil terminals after full utilization of Iran's northern refineries as well as existing lines from Isfahan and Arak having a capacity of 800,000 b/d. This can be achieved by:

- (i) Reversal of the flow of the existing pipelines of Isfahan and Arak to Iran's southern oil terminals.
- (ii) The implementation of new pipelines from Kazakhstan, Turkmenistan or Azerbaijan linked to Isfahan and Arak.

It is of particular note that this Third Phase requires minimal investments in Iran's southern infrastructure as there already exists a proven capacity to unload over 5mb/d of oil. In sum, the implementation of the above three phases can enable the transfer of over 1.6 mb/d of Caspian oil with minimum delay and expense. Iran Trade Point Network website, “Geo Economic Factors of Oil and Gas,” Available [Online]:

<<http://www.irtp.com/howto/partner/partner/chap3/chap3v.htm>> [July 21 2006].

<sup>25</sup> Jofi Joseph, *Pipeline Diplomacy: The Clinton Administration's Fight for Baku-Ceyhan*, Woodrow Wilson School of Public and International Affairs, Case Study in *International Diplomacy* no. 1 (Princeton, NJ: Princeton University, 1999), 16–17. Cited in Marcus Menzel, *Doomed to Cooperate: American Foreign Policy in the Caspian Region* (Frankfurt am Main, Berlin: Peter Lang Publishing, December 2002), 78.



for the Caspian oil as it had not been free of long interruptions for varieties of reasons. One of the main reasons for the interruption of the transportation of Azeri oil through the northern Russian route was the ongoing hostility between Russia and the Chechen insurgents. The pipeline has been damaged many times during the bombings of Chechnya and also the Chechen fighters used it to damage Russian interests in the region. In addition to the war that was already destabilizing the region, some people in Chechnya used to dig holes to steal oil from pipelines and sell it in the black market.<sup>26</sup> The weak Russian control over the Chechen territories raised serious concerns over the viability of this route for Azeri oil. The concerns about the Russian route were coupled with the fact that the Russian port of Novorossiysk had to be closed for 3–4 months during the winter.

The Baku-Supsa pipeline, despite the difficulties and the ravaging costs, began operations in April 1999 with a capacity of 115,000 bbl/d. The cost estimates of the pipelines have been proven wrong. In the case of Baku-Supsa, it cost about 600 million dollars, twice the amount of earlier estimates.<sup>27</sup>

The first phase of the oil transportation and pipeline negotiations was more or less smooth and the cooperation among the actors has been achieved. One of the reasons for the emergence of cooperation among actors on the issue was the absence of relative gain considerations.<sup>28</sup> The neo-realist theories argue that the states in international arena carry

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<sup>26</sup> According to the State Oil Company of Azerbaijan (SOCAR), a mere 4.3 million metric tons of oil has been exported since shipments began along the Baku-Novorossiysk route. Oil from Azerbaijan accounted for 1 million metric tons of the total. Experts believe that the pipeline has been operating at 35 percent of its capacity. A total of 120,000 metric tons of crude worth \$ 5.5 million have been stolen from the Baku-Novorossiysk oil pipeline in Chechnya since the beginning of 1999. *Nevsimaya Gazeta* and *Gudok* via News Base, Available [Online]: <<http://www.gasandoil.com/goc/company/cnc93206.htm>> [14 July 2006]. "Baku-Novorossiysk Operation at 35%, Oil Stolen," *Alexander's Gas and Oil Connection* 4, no. 14 (June 1999).

<sup>27</sup> Dekmejian and Simonian, *Troubled Waters*, 37.

<sup>28</sup> Realist assumptions do not accept the existence of ethic or morality in international relations and state behavior. As Morgenthau puts it, "Realism maintains that Universal moral principles can not be applied to

relative gain considerations.<sup>29</sup> It is not only about what they gain from a transaction between/among states, it is also the fact that what others gain and how much their gain affects the existing power balance among states. As it goes from this assumption that if the gain of others is considered to be higher, then the states may prefer to abstain from cooperation.<sup>30</sup> Menzel argues that in the discussions for early oil it was the absolute gain that prevailed. "Indeed a strict relative gains orientation would have impeded if not killed cooperative endeavors at a rather early stage of pipeline development."<sup>31</sup> In the case of early oil, the Russian government focused on the Baku-Novorossiysk pipeline and did not oppose Baku-Supsa as the bulk of the oil was planned to flow through the northern route. The United States joined by Turkey, mainly focused on the diversification of the pipelines and Baku-Supsa as an alternative to Baku-Novorossiysk.<sup>32</sup> Joseph Stanislaw and Daniel Yergin argue that "tight oil market is vulnerable to shocks in a way that an oversupplied market is not."<sup>33</sup> Although Azerbaijan wanted to be less and less dependent on the Russian pipeline system, under the prevailing circumstances and the United States' willingness to compromise, Azerbaijan agreed on the double route. It

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the actions of states in their abstract universal formulation, but they must be filtered through the concrete circumstances of time and place." Morgenthau, *Politics Among Nations*, 50.

<sup>29</sup> Mearsheimer, "The False Promise of International Institutions."

<sup>30</sup> According to realist paradigm, it is the nature of the international system which is anarchy that prevents international cooperation. It stems from the fact that "states seek absolute gains and worry about compliance. However realists find that states are positional not atomistic, in character, and therefore realist argue that, in addition to concerns about cheating, states in cooperative arrangements also worry that their partners might gain more from cooperation than they do." Joseph M. Grieco, "Anarchy and the Limits of Cooperation: A Realist Critique of the Newest Liberal Institutionalism," in *Controversies in International Theories: Realism and the Neoliberal Challenge*, ed. Charles W. Kegley, Jr. (New York: The Macmillan Press Ltd., 1995), 152.

<sup>31</sup> Menzel, *Doomed to Cooperate*, 81.

<sup>32</sup> Ali Gungor and Ersel Aydinli, "The Dual Pipeline: Cooperation Versus Competition," *Caspian Crossroads Magazine* 2, no. 1 (Spring/Summer 1996).

<sup>33</sup> Joseph Stanislaw and Daniel Yergin, "Oil: Reopening the Door," *Foreign Affairs* 72, no. 4 (September/October 1993), 91.

was also the fact that, Azerbaijan was in an urgent need to find an outlet for the produced oil to provide revenue for the future investments for the development of the reserves.

Since each country focused on absolute gains, the outcome was a cooperative behavior. Although Russia secured the biggest portion of the oil transportation, the United States and Azerbaijan did not focus on that part which indicates that they did not carry relative gain considerations. The outcome could be interpreted as a win-win strategy that could be better explained by the neo-liberal school of thought. Relative gain considerations did not dominate the policies of the negotiating parties which eventually made it easy for them to achieve cooperation.

As for Iran and the United States, the situation was just the opposite. Relative gain considerations and zero-sum thinking determined the nature of the entire United States-Iran relationship. The U.S. government used its resources to exclude Iran from Caspian oil business and pipeline discussions despite the fact that the Iranian option appealed to Azeri government and oil companies at the beginning. According to the Iranian scholars, Iran is the most logical and feasible outlet for Caspian oil considering the advantages it offers compared to the other options especially BTC. Nasri states that “not only the Caspian oil and gas be exported cheaper in terms of transportation costs but it can also reach both Europe and the huge Asian market.”<sup>34</sup>

The U.S.-Iran situation would be an example for state interaction from a neo-realist perspective as each state pursued a relative gain policy and tried to eliminate the involvement/influence of other in the affairs of the region. A gain for Iran is seen as a

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<sup>34</sup> Narsi Ghorban, “By Way of Iran: Caspian’s Oil and Gas Outlet,” in *The Caspian Region at a Crossroad: Challenges of a New Frontier of Energy and Development*, ed. Hooshang Amirahmadi (Palgrave Macmillan, 2000), 154.

loss for the United States and therefore the U.S. government used its power to persuade Azeri government and oil companies to exclude Iran.

After all the negotiations for the transportation of early oil, the actors were able to achieve cooperation because each party accepted to modify their policies according to others. While Russia accepted the inclusion of a second route other than the Baku-Novorossiysk, Azerbaijan accepted the U.S. proposal to exclude Iran. The United States although did not want to give Russia a big share in the transportation of Azeri oil, for the stability of the region and the apparent need for urgent settlement, agreed on the northern route.<sup>35</sup>

From a stand point of international relations theories, we might also conclude that the number of actors also affected the likelihood of cooperation in the early oil debate. In the case of early oil, the number of actors in the negotiations could be considered small; which facilitated the achievement of cooperation.<sup>36</sup>

Another aspect of the issue is the shadow of future.<sup>37</sup> In the case of case of early oil discussions, the compromises made by the negotiating parties could be understood by the existence of an understanding by which actors expected to interact with each other in the future. Since this was all about the transportation of early oil, the actors wanted to prepare a ground for the transportation of main oil. Adjustment of policies by each state

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<sup>35</sup> Three million tonnes of Azeri crude through the Baku-Novorossiysk pipeline 2005. Braemar Seascopes Saturday, July 08 2006. Braemar Seascopes reports that Azerbaijan hopes to export a minimum of 3 million tonnes of crude oil through the Baku-Novorossiysk pipeline this year. Under the agreement, signed with Russia in 1997, Azerbaijan can export up to 5 million tones per year through the line. However, the alternative Baku-Supsa pipeline is cheaper to use, charging a transit tariff of only \$3.20 per tonne, compared to \$15.67 per tonne to Novorossiysk. Another disadvantage for the Azerbaijanis using the Novorossiysk line is that their high quality Azeri crude is blended with lower grade Russian crude to make Urals Blend, which sells at a discount of about \$4–5 pmt lower than pure Azeri crude. Braemar Seascopes, "Three Million Tones of Azeri crude through the Baku-Novorossiysk Pipeline 2005," Available [Online]: <<http://www.intertanko.com/templates/Page.aspx?id=33131>> [21 September 2005].

<sup>36</sup> Kenneth A. Oye, "Explaining Cooperation under Anarchy: Hypothesis and Strategies," in *Cooperation under Anarchy*, ed. Kenneth A. Oye (Princeton, NJ: Princeton University Press, 1985), 19.

<sup>37</sup> Ibid., 13–18.

and oil companies could be viewed from this perspective as well. Menzel asserts that “the shadow of the future loomed large because the negotiations for the main export pipelines MEP had yet to commence and the early oil deals could therefore serve as a test. This implies that the United States could not, at this stage, exit from agreement without suffering, in Crawford’s term, a reputational loss disadvantaging Washington’s negotiation position for the main oil in the future.”<sup>38</sup>

The stake in the early oil was not so high, compared to the economic benefits expected from the transportation of main oil.<sup>39</sup> The countries involved in the early oil negotiations had high hopes about the main oil and main export pipelines (MEP). Russia considered Baku-Novorossiysk as a success and expected the MEP pass through Russia. However, the number of actors in the second phase of the pipeline negotiations for the main oil increased as with the stakes at hand.

## MAIN EXPORT PIPELINES (MEP) AND COOPERATION

Starting with the Production Sharing Agreements, the search for the main export line(s) has gone through several stages of complex state interaction. The early stages of the developments could be characterized as the complete absence of coalition with the existence of multiple proposals, and routes pushed by different governmental and non-governmental actors. Although the involving countries and oil companies started to define their interests, there was not a strong center or a coalition nor a regime existed to determine the rules of negotiations for the main export pipelines. The friendly

<sup>38</sup> Menzel, *Doomed to Cooperate*, 83.

<sup>39</sup> The Azeri Production of oil was not too high as it could be seen from the numbers below.

|             |             |             |             |             |             |
|-------------|-------------|-------------|-------------|-------------|-------------|
| 1992, 222.2 | 1993, 206.5 | 1994, 191.2 | 1995, 180.5 | 1996, 180.3 | 1997, 179.9 |
| 1998, 236.7 | 1999, 283.6 | 2000, 288.6 | 2001, 308.9 | 2002, 317.8 | 2003, 327.6 |
| 2004, 319.2 |             |             |             |             |             |

environment emerged throughout the negotiations over the transportation of early oil started to fade as each actor in the Caspian Sea petroleum development realized the nature of the MEP issue. It was no longer a win-win scenario as it was the case with early oil. The main pipeline would not possibly benefit all the involved parties. As there would be winners of the game, there was going to be some losers out of all this MEP negotiations. Having realized this fact, the actors in the game started competing over the main export pipelines. Starting with 1997 and on, the countries of Caspian Sea (including Russia and Iran), the United States and Turkey fiercely fought over their preferred route for the transportation of Caspian oil. Despite the fact that there has been a plethora of proposals for the main route, the main export options seriously considered were:

- Baku-Tbilisi-Ceyhan (BTC)
- Baku-Supsa
- Baku-Novorossiysk

Other than these proposals, Bulgarian Black Sea route of Burgaz and Greek port of Alexandroupoulos on the Aegean Sea have been considered as an option by the AIOC.<sup>40</sup> As the number of proposals increased, the competition over the MEP intensified.<sup>41</sup> This has also pushed the Caspian oil producing countries in a difficult situation. They had to choose a route for the main export pipeline and at the same time deal with the pressures coming from powerful neighbors and external powers. Kazakhstan, for its part expressed its support for a Western route as long as it was commercially feasible and at the same

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<sup>40</sup> See Hugh Pope, "Azerbaijani Leader Favors Pipeline Backed by U.S.," cited in "Rebuff to Russia," *The Wall Street Journal*, 9 May 1999.

<sup>41</sup> "With so many options and so many competing interests, it is hard to predict where the pipelines will run." Zenny Minton Bedoes, "A Survey of Central Asia: Pipeline Poker," *The Economist*, 7 February 1998, 11.

time Kazakh government displayed interest in the Iranian route.<sup>42</sup> These were interpreted as a way of throwing off of the Iranian pressure or maintain a level of friendship with the neighbor countries. Azerbaijan acted similarly and expressed its desire on a route that would commercially be viable.<sup>43</sup>

Although it has been stated that the decision for the MEP would be based on commercial viability and technical feasibility, the involvement of external players and the nature of the issue at stake, geopolitical considerations took precedence.<sup>44</sup> This was especially visible in the policies of the Turkish government who rejected any option other than Baku-Ceyhan. With the United States backing up Turkish government, the Baku Ceyhan route became one of the main issues of discussion among the states and the oil companies. Although the United States had been trying to play a role of an impartial arbiter, its support for Baku-Ceyhan and Turkish government changed the dynamics of relationships in the Caspian MEP discussions. American policy on the MEP is also geopolitically oriented contrary to the oil companies whose policies are based on commercial viability and cost-benefit analysis. Opponents of BTC criticized the American government for its support for BTC, a project that is not economically feasible and not the most efficient.<sup>45</sup>

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<sup>42</sup> "Iran Offers Transport Routes for Caspian Oil," *Caspian Business Report* 2, no. 15 (August 1998).

<sup>43</sup> "The development toward a competitive, commercial environment and emergence of multiparty, multilevel negotiations between states-as- and oil companies-as-actors with diverging interests, i.e. commercial interests mainly of the oil companies opposed to geopolitical interests of nation states, enormously complicated and slowed down prospects for an early or readily predictable outcome on main export pipelines." Menzel, *Doomed to Cooperate*, 90.

<sup>44</sup> Andrew I. Kilgore, "Ideology Triumphs Economic Efficiency, as the Baku-Tbilisi-Ceyhan Pipeline Opens," Special Report, *The Washington Report on Middle East Affairs*, August 2005.

<sup>45</sup> Hooman Peimani, *The Caspian Pipeline Dilemma: Political Games and Economic Losses* (Westport, CT: Praeger, 2001), 77.

## TURKEY AND THE BAKU-CEYHAN PIPELINE

The involvement of Turkey as a regional actor in the MEP negotiations proved to be a decisive factor in the future of the interstate relations/negotiations in the Caspian region over the pipeline issues. Turkey, as a regional power, has close ties to the countries of the Caspian region. The historical friendship and kinship with Azerbaijan, Kazakhstan and Turkmenistan is one of the driving forces behind Turkey's enthusiasm to reestablish close ties with these countries.<sup>46</sup> Starting with the break up of the Soviet Union, Turkey supported the countries of Central Asia and the Caucasus by being one of the first to recognize their independence. Ever since, Turkish governments made continuous attempts to increase political and economic relationships.<sup>47</sup> The newly independent states of Central Asia and the Caucasus were seen as brother countries by the Turkish people, and the Turkish governments tried to provide every possible help to these countries with their transition to being an independent state and to democracy. Turkey also assumed a role model for these countries after their independence.<sup>48</sup> In fact, this was also welcomed by the littoral states of the Caspian Sea as they needed every possible help to consolidate their place as an independent country.<sup>49</sup> Although both sides here had high hopes about the possibilities of close relationships and Turkey being a primary caretaker for these countries, the availability of political and economic resources limited the extend of interstate relationships between Turkey and the Turkic states in the Caspian Sea and

<sup>46</sup> Pinar Egeli, "Bizim İçin Asya Nedir?" *Avrasya Etudleri*, no. 26, 2004.

<sup>47</sup> Orhan Morgil, "Yeni Türk Cumhuriyetleri ve Türkiye Ekonomik İlişkileri," in *Balkanlar, Kafkasya ve Ortadoğu'da Gelişmeler ve Türkiye*, ed. Erol Manisali, Uluslararası Girne Konferansları, Kıbrıs Araştırmaları Vakfı, no. 10, 1994.

<sup>48</sup> Busra Ersanli, "Çok Boyutluluğun Yeniden Kesfi: Türkiye'nin Türk Cumhuriyetleriyle İşbirliği Arayışı," in *Türk Cumhuriyetleri ve Petrol Boru Hatları*, ed. Alaeddin Yalcinkaya (İstanbul: Bağlam Yayınları, 1998).

<sup>49</sup> Kamer Kasim, "Nagorno-Karabakh Conflict, Caspian Oil and Regional Powers," in *The Politics of Caspian Oil*, ed. Bülent Gökay (New York: Palgrave, 2001), 189–90.



the Central Asia. Soon they realized the need for a broader framework for transition to being an independent state after years of Russian rule. Despite the fact that, Turkey could not provide the resources needed by the former Soviet republics,<sup>50</sup> it presented itself as a door to the Western World as a NATO country and a long time ally of Washington.<sup>51</sup> Nevertheless, Turkey continued to support these countries as best as it could and established strong relationships in economic and political arenas.<sup>52</sup>

When it comes to the negotiations for pipelines, Turkey moves from the very same stand point where it sees itself as a natural outlet for these countries.<sup>53</sup> For Turkish people and Turkish government, a pipeline that will carry Azeri petroleum, Turkey must be the first choice among others, considering the level of closeness between Turkey and Azerbaijan.<sup>54</sup> Therefore Turkey, starting with 1992, has strongly been supporting the Baku-Ceyhan as a main export pipeline for the Caspian oil. Any alternative to this option fiercely opposed by the Turkish governments on several grounds.

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<sup>50</sup> Some Turkish scholars also claim that the inability of Turkey to provide a broad range of help in many areas is not actually related to the absence of sufficient amount of resources in Turkey. They tend to put the blame on the Turkish government asserting that Turkey had no vision over the course of developments in the region. The lack of a grand strategy complicated our initiatives in the Caspian and Caucasus area and caused Turkey to be unsuccessful compared to what we could have done considering that fact that Turkey has certain advantages over the region compared to other external countries. See Deniz Kutluk, *Hazar Kafkas Petrolleri, Turk Bogazlari, Cevresel Tehdit* 16 (Istanbul: Turk Deniz Arastirmalari Vakfi, 2003), 50–51.

<sup>51</sup> Fuad Huseyinov, "Avrupa Birligi Turk Cumhuriyeleri Iliskileri ve Turkiye," *Avrasya Etudleri* 21 (2002).

<sup>52</sup> Turkish minister Ahdar Andican also confirmed the fact that Turkey has made certain mistakes with respect to the policies over the region and the relationship with these countries, emanating from the fact that the internal problems inside the country prevented Turkey from taking an active role in the regional affairs. He also mentioned the lack of experience on the side of Turkey to involve in the affairs of other countries and regions compared to the other great powers in the world who have had vast experience for centuries. "Kafkaslar, Orta Dogu Avrasya Perspektifinde Turkiyenin Onemi Sempozyumu: Sorular Cevaplar" (Istanbul: Harp Akademileri Yayini, 1998), 234–35.

<sup>53</sup> For more details on the Turkish approach to the region see Alaeddin Yalcinkaya, ed., *Turk Cumhuriyetleri ve Petrol Boru Hatlari* (Istanbul: Baglam Yayinlari, 1998).

<sup>54</sup> Both countries speak Turkish language which, Azeri is the closest to the language spoken in Turkey. Kasim, "Nagorno-Karabakh Conflict, Caspian Oil and Regional Powers," 185. Although most of the Azeri people are Shi'as, it never constitutes a problem in terms of establishing close ties in different realms.

First, from the very beginning of the pipeline negotiations, Turkey has been complaining about the intense tanker traffic on the Bosphorus where more than 12 million people lives. The status of the Istanbul straits had been determined by the Montreux Treaty in 1936. The treaty proposes free passage to commercial ships and only gives the right to Turkey to close it during wartimes against enemy warships.<sup>55</sup> Therefore Turkey has no right to intervene in the passage of oil tankers through the Turkish straits (Dardanelles).<sup>56</sup> After 1990, the traffic on the Bosphorus intensified and this has caused several serious accidents that threatened the city life in Istanbul.<sup>57</sup> Turkish government stepped up and introduced certain regulations to control the passage of heavy loaded ships, however these regulations could not help to solve the existing problems as the traffic through the straits increased each year.<sup>58</sup> Potential threats posed by accidents still affecting city life in Istanbul and also around Marmara Sea and Dardanelle.<sup>59</sup> The Turkish argument on the basis of high traffic on the Turkish straits indicates the very fact that, transportation of Caspian oil through Turkish straits will increase already tight traffic which would eventually increase possibility of accidents and oil spill into the sea.<sup>60</sup>

<sup>55</sup> As it is proposed by the first article of the Montreaux Treaty "The High Contracting Parties recognize and affirm the principle of freedom of transit and navigation by sea in the Straits."

<sup>56</sup> Full text of the Treaty can be located at: Turkish Maritime Pilots Association Website, Available [Online]: <<http://www.turkishpilots.org/DOCUMENTS/montro.html>> [21 August 2005].

<sup>57</sup> For more details on the accidents and incidents where serious threat was posed to human life, see Kutluk, *Hazar Kafkas Petrolleri, Turk Bogazlari, Cevresel Tehdit* 16, 8–12. *Zaman Gazetesi* reports a recent incident that a big disaster was barely prevented in Istanbul. *Zaman Gazetesi*, 22 February 2006. Turkish Media has numerous reports on the incidents that posed serious threat to human life in Istanbul from the passage of the giant oil tankers through Bosphorus. See for example *Zaman Gazetesi*, 13 February 2004.

<sup>58</sup> For details of these regulations see Kutluk, *Hazar Kafkas Petrolleri, Turk Bogazlari, Cevresel Tehdit* 16, 176–232.

<sup>59</sup> Ors and Yilmaz argue that "Oil spills from tankers, small or large, have resulted in considerable damage to the environment. If no major damage to human population took place, there is no guarantee that we are spared forever." Haluk Ors and Server Levent Yilmaz, "Oil Transport in the Turkish Straits System, Part II: A Simulation of Contamination in the Dardanelles Strait," *Energy Source* 26 (2004): 175.

<sup>60</sup> Ahmet Ozturk, "From Oil Pipelines to Oil Straits: the Caspian Pipeline Politics and Environmental Protection of the Istanbul and the Canakkale Straits," *Journal of Southern and the Balkans* 4, no. 1 (2002): 59.

Throughout the negotiations, Turkey used this card continuously to extract some support for the Baku-Ceyhan pipeline that would carry a million barrel per day. Some people however challenge the Turkish argument on the ground that the bulk of the Caspian oil will still be carried by oil tankers through Turkish straits since the Kazakh oil is already flowing through Novorossiysk. The construction of CPC and the completion of Russian-Kazakh oil network through Novorossiysk take up most of the oil production in the Caspian Sea region.<sup>61</sup> Therefore the argument is that, still most of the Caspian oil has to go through Turkish straits despite the fact Baku-Ceyhan will carry a million barrel to Mediterranean. According to the proposed levels of production, the Caspian oil production is expected to be around 200 million tons per year which 50 million tons of the oil will be carried by the Baku-Ceyhan pipeline. This amounts to only 22 percent of the total Caspian oil production.<sup>62</sup> As we see from the numbers, the Caspian oil is still expected to put a lot of pressure to tanker traffic on the Turkish straits.<sup>63</sup> Nevertheless, Baku-Ceyhan pipeline might still be able to reduce certain amount of traffic and relieve the pressure over the Turkish straits. As it looks from the Turkish perspective, this issue will continue to be on agenda when it comes to negotiations over pipelines for the Caspian oil.<sup>64</sup> Turkish Prime Minister Recep Tayyip Erdogan stated in the grand opening ceremony of the Baku-Ceyhan pipeline on July 13 2006, that Turkey will pursue other

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<sup>61</sup> Zeynep Gogus, "Ceyhanin Rakibi Novorossiysk," *Sabah Gazetesi*, 29 Eylul 1997.

<sup>62</sup> The numbers might change slightly as the new discoveries are made and the production capacity increased around Caspian Sea.

<sup>63</sup> The Russian side did not agree with the Turkish arguments. Despite the Turkish insistence on the issue of Traffic on the Bosphorus, the Russian side did not quite agree with the Turkish complains and blamed Turkish government for introducing tight measures to regulate the passage from Istanbul strait. For more details on the opposition to Turkish arguments, see Felix N. Kovalev, "Transportation of Caspian Oil Through Russia," in *The Caspian Region at a Crossroad: Challenges of a New Frontier of Energy and Development*, ed. Hooshang Amirahmadi (Palgrave Macmillan, 2000), 159.

<sup>64</sup> For more statistical information on the high traffic that has been increasing in the Turkish Straits and possibility of oil spills and accidents; see Ors and Yilmaz "Oil Transport in the Turkish Straits System, Part II," 167–75.

options for carrying Kazakh and Russian oil through another pipeline project from Samsun ( a Turkish city on the Black Sea) to Ceyhan.<sup>65</sup> If Turkish government can bring other parties together on the project, it is quite possible that the tanker traffic might be reduced to safer levels. However, these would require the cooperation of the Russian and Kazakh government, although Kazakhstan would accept such proposal, Russia may not pursue this option because of other political considerations.<sup>66</sup>

Another reason that Turkey has been so enthusiastic about Baku-Ceyhan as a main export pipeline for the Azeri petroleum is the fact that, the direction of the pipelines has become an issue of geopolitical importance. The country that the pipeline goes through will have a political influence over the region and the regional affairs. Turkey, Russia and Iran have long competed for establishing influence over the region. Svante E. Cornell argues that “the building of the Baku-Tbilisi-Ceyhan pipeline constitutes a strategic milestone in post-Soviet Eurasia. In the first place, the pipeline’s construction will have major implications for the South Caucasus, especially as regards its role in European and World Politics.”<sup>67</sup> For everyone involved, within as well as in every direction from the South Caucasus, the building of the BTC pipeline reconfigures the mental map with which political observers and decision-makers look at the world. Azerbaijan and Georgia will see their futures in more direct relation to Europe through the umbilical cord that BTC constitutes.”<sup>68</sup> Russia as the successor of the former Soviet

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<sup>65</sup> *Milliyet Gazetesi*, 13 July 2006.

<sup>66</sup> Russia’s resentment over Baku-Ceyhan was visible from the opening ceremony of the Baku-Ceyhan pipeline. Although the other countries were represented at high diplomatic levels, Russia did not participate at ministry level; only the Russian ambassador to Turkey was present. “15 Yillik Ruya Gercek Oldu,” *Zaman Gazetesi*, 14 July 2006.

<sup>67</sup> DPT, *Turkiyenin Uyeliginin AB’ye Muhtemel Etkileri* (Ankara: DPT Yayinlari, 2004).

<sup>68</sup> Svante E. Cornell, Mamuka Tsereteli and Vladimir Socor, “Geostrategic Implications of the Baku-Tbilisi-Ceyhan,” in *The Baku-Tbilisi-Ceyhan Pipeline: Oil Window to the West*, eds. S. Frederick Starr and Svante E. Cornell (John Hopkins University Press, 2005), 17.

Union sees the region as a natural sphere of influence. Any attempt by outside powers is seen as a setback for Russian control in the region. Among the other political and military games that have been played in the region over the course of developments, the MEP issue has become an issue of influence and reputation. The country that controlled the direction of MEP would be in a better position to exert influence over the regional affairs. Turkey has long been striving to be an important actor in the region through the establishment of economic and political links. Baku-Ceyhan pipeline presented itself as a big opportunity for Turkey to gain an important status in the region. As the early oil was agreed to go through Russian territories and neither Turkey nor the United States wanted to see Russia establishing full control over the future of Azeri oil.<sup>69</sup> It was also a priority for Azerbaijan to break away from Russian stranglehold, and during the negotiation for MEP, Azerbaijan sided with Turkey and the United States.<sup>70</sup> Turkish struggle for geopolitical influence is also related to domestic politics in Turkey.<sup>71</sup> Turkish governments have long tried to establish an eminent position in the Caucasus and the Caspian region. The issue of pipelines, Baku-Ceyhan, became an issue of reputation for Turkey. From 1990s to 2007, Turkish government changed hands many times. Each political party made it a high priority for itself to complete the Baku-Ceyhan pipeline

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<sup>69</sup> Russian scholars argue that the Russia phobia in the Caucasus-Caspian region is unwarranted. Kovalev, "Transportation of Caspian Oil Through Russia," 159.

<sup>70</sup> Turkish prime minister referred to a corridor that BTC establishes that "BTC will not be only a pipeline that carries petroleum but also a golden line that links the countries of the region to each other. It will help to improve our relations at political and economic areas. "15 Yillik Ruya Gercek Oldu." See also *Milliyet Gazetesi*, 13 June 2006.

<sup>71</sup> The policies followed by Turkey set an example to Realist explanation for struggle for power. The realist paradigm assumes the existence of a struggle for power and influence in international arena. States also try to prevent others from gaining power which in such settings achievement of cooperation becomes very difficult. As Morgenthau puts it, "All Politics, domestic and international reveals three basic patterns; that is all political phenomena can be reduced to one of the three basic types. A political policy seeks to either to keep power, to increase power and to demonstrate power." Morgenthau, *Politics among Nations*, 50. He also asserts that "struggle for power is universal in time and space and is an undeniable fact of experience." Ibid., 36.

project. The governments thought that it could also increase their popularity as a political party that was able to achieve such a big and beneficial project for the country.<sup>72</sup>

In fact, the rising Turkish enthusiasm for the project, for some people, has harmed Turkish interests in the negotiations as the oil companies (AIOC) used it as a leverage to extract more benefits by asking for reduced tariffs and land right prices. Turkish governments have been criticized by giving big concessions during the negotiations to the oil companies and also providing subsidies for the project when the cost estimates passed the initial projections.<sup>73</sup> Although the United States also supported the Baku-Ceyhan project, it never accepted providing financial support. Turkish scholars also criticized the American policy of providing infinite political support during the negotiations for MEP but abstaining from giving out subsidies for the Baku-Ceyhan pipeline.<sup>74</sup> Some argued that Turkish government knowingly accepted the lower tariffs and provided additional support on the ground that this project is an important step for the Caspian states to export oil and build up wealth and break away from the Russian and the Iranian influence.<sup>75</sup> This is also in the Turkish interest to see the exclusion of Russia and Iran from the MEP and therefore the Turkish attitude and compromises should be considered from this perspective. Dr. Kutluk content this view by asserting that the aforementioned points were also in the American interests but the U.S. government never promised any financial contribution to the project.

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<sup>72</sup> Nejdet A. Pamir, "Baku-Ceyhan Boru Hattı," *Avrasya Stratejik Arastirmalar Merkezi (ASAM) Yayinlari* (Ankara: Kirali Matbaasi, 1999), 11.

<sup>73</sup> Nejdet A. Pamir, *Baku Ceyhan Boru Hattı ve Orta Asya ve Kafkasyada Bitmeyen Oyun*, *Avrasya Stratejik Arastirmalar Merkezi (ASAM) Yayinlari* (Ankara: Kirali Matbaasi, 1999).

<sup>74</sup> Menzel, *Doomed to Cooperate*, 63

<sup>75</sup> See Suha Bolukbasi, "Ankara's Baku-Centered Policy: Has it Failed?" *The Middle East Journal* 51, no. 1 (Winter 1997).

Regardless of the discussion about the material and financial benefits that will come from BTC to Turkey, the project in fact will deliver certain financial benefits to Turkish people in the long run. As Mr. Erdogan explained in his speech, Turkey will receive a 250–300 million a year from the BTC pipeline, other than the employment and the profits to be made for the maintenance of the long pipeline.<sup>76</sup>

Dr. Kutluk is also critical of the oil companies which, despite the increase in oil prices, heavily bargained on the tariffs that the host nations will receive.<sup>77</sup> On the day that the BTC first started loading on the Ceyhan port, Turkish newspapers praised the capacity of the Ceyhan port (160 million ton) as the biggest in Europe even passing Rotterdam.<sup>78</sup> It is also expected that Ceyhan could be a center for the oil industry that would greatly benefit Turkey.

As it could be seen from the explanations above, Turkey followed a strict self-interest policy during the negotiations for MEP.<sup>79</sup> As we have mentioned before, any other option has been strongly rejected by the Turkish government and especially after 1997 and onwards, Turkey used every possible policy to achieve its aim, including pressuring the U.S. government to use its power and influence over BTC option. There has been no sign of a possibility for a compromise for MEP as far as Turkey is concerned.

<sup>76</sup> “Türkiye’yi Petrol Ussü Yapan Yüzyılın Projesi Büyük Bir Törenle Başladı,” *Milliyet Gazetesi*, 13 July 2006. Dr. Kutluk states that, despite the fact that BTC pipeline is longer than Kerkuk-Ceyhan, the material benefits that Turkey gets from BTC is lower, referring to the low tariffs rates Turkey accepted. Kutluk, *Hazar Kafkas Petrolleri, Türk Bogazlari, Cevresel Tehdit* 16, 108–112.

<sup>77</sup> *Ibid.*, 105–107.

<sup>78</sup> “Türkiye’yi Petrol Ussü Yapan Yüzyılın Projesi Büyük Bir Törenle Başladı,” *Milliyet Gazetesi*, 13 July 2006.

<sup>79</sup> “Realism views the modern state as a rational actor engaging in strategic action with other states. All states are taken to be structurally motivated to advance their respective national interests on the basis of their power in an anarchical international system.” Baldev Ray Nayer, “Regimes, Power and Institutions,” *International Organization* 49, no. 1 (Winter 1995): 141.

Since the number of actors in the whole MEP negotiations was big, the possibility for a common solution was considered very thin. Despite the fact that Turkey did not play a big role during the early years of oil development and transportation of early oil, Turkey emerged as one of the main centers of the negotiations for the MEP discussions. One of the results of strong Turkish approach to the issue was the slowing down of the developments. Considering the fact that the negotiations for the main export pipeline started as early as 1994–95 and ended around 2001 and completed in 2005, the attitude and policies of the involved actors particularly slowed down the advancements of the negotiations over MEP. The same kind of attitude was also visible on the policies of other actors in the MEP negotiations.

#### THE ROLE OF THE UNITED STATES IN THE PIPELINE DILEMMA

The United States as an external power took a more or less impartial role during the negotiations for early oil but changed the course of its policies fundamentally and provided full support for the BTC and Turkey. American foreign policy in the Caspian region is formulated around the exclusion of Iran from any oil business, therefore preventing Iran from extracting any lucrative benefits, controlling and limiting Russian influence in the region, protecting the interests of American oil companies and ensuring the smooth transition of newly independent states to democracy and market economy while helping them to consolidate their independence.<sup>80</sup> Some of the interest listed above overlaps with the interests of Turkey. Turkey has been a dependable ally for

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<sup>80</sup> For more details on the American foreign policy in the Transcaucas region, see Gawdat Bahgat, *American Oil Diplomacy in the Persian Gulf and the Caspian Sea* (Gainesville: University Press of Florida, 2003), 167. See also United States Senate, Hearing before the Subcommittee on International Economic Policy, Export and Trade Promotion of the Committee on Foreign Relations, "U.S. Energy Security: Russia and the Caspian," 30 April 2003, 4.



Washington since the end of the World War II. When it comes to the MEP negotiations, Turkey and the United States supported the same agenda and tried to counter the Russian and the Iranian alternatives and their influence in the region. Energy security is an important issue for the United States and the diversification of the energy supplies and reduction of dependence on Middle Eastern oil is an important aspect of achieving this aim. The American approach to Caspian is interpreted within this venue that extraction of the Caspian oil in a smooth and steady way may provide additional resources for consumption. Although this view is challenged by some people on the ground that the Caspian oil is no way close to be an important source for diversification of oil supplies, the U.S. government continuously supported a smooth and a healthy oil development in the Caspian Sea region and openly supported Baku-Ceyhan route as a main export pipeline.<sup>81</sup>

American involvement in the MEP issue is also related to the control of Russian hegemony over oil outlets as Russia possesses certain advantages coming for the historical establishments and its geographical location vis-à-vis to Caspian and Central Asian states.<sup>82</sup> In addition to these, Russia was already controlling the early oil pipelines from Caspian Sea and the Kazakhstan's oil export line, including CPC. Under the circumstances, the U.S. government alongside with Turkey and Azerbaijan favored a different route that would not fall under the Russian control. Although the Iranian route seemed to be the shortest and the cheapest according to the analyses made by European companies, the U.S. policy to isolate Iran left no ground for any Iranian option for MEP.

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<sup>81</sup> At its peak level, Caspian oil production is estimated to be around 3–5 percent of the total world oil production.

<sup>82</sup> Zbigniew Brzezinski, *The Grand Chessboard, American Primary and its Geostrategic Imperatives* (New York: Harper Collins, 1997), 129.

Considering the directions of the developments and the heightening tensions between the United States and Iran over nuclear plants and Iran's support for Hezbollah in Lebanon, any policy change on the U.S. side towards Iran in the coming years is not expected.<sup>83</sup> American licensed oil companies are forbidden to get into any type of business transaction with Iran, exceeding 20 million dollars. ILSA (Iran Libya Sanction Act 1996) serves this purpose and designed to control Iranian involvement in lucrative projects. This represents an important aspect of non-cooperation in the region as it simply ignores the Iranian side and their policies. Overall, we could assert that the nature of the relationship between United States and Iran has long been an important impediment to the achievement of a general cooperation in the region in terms of developing the energy resources of the Caspian Sea. The deepening of the tensions between Iran and United States has negatively affected the prospects for a larger scheme of cooperation in the region.

Despite the fact that the BTC option is longer and more expensive,<sup>84</sup> under the circumstances the U.S. government accepted the BTC option as the most reliable and safe exit for the Azeri oil and possibly for Kazakh oil from Kasghan reserves.<sup>85</sup> The American policy on MEP and its push for support from oil companies has been criticized

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<sup>83</sup> See Gawdat Bahgat, "The United States and Iran: Prospects for Rapprochement," in *American Oil Diplomacy in the Persian Gulf and the Caspian Sea* (Gainesville: University Press of Florida, 2003), 103–140.

<sup>84</sup> For an extended cost-benefit analysis of the pipeline proposals, see Ronald Soligo and Amy Myers Jaffe, "The Economics of Pipeline Routes: The Conundrum of Oil Exports from the Caspian Basin," in *The Caspian Region: Present and Future*, ed. Yelena Kalyuzhnova et al (Palgrave Macmillan, 2002).

<sup>85</sup> There have been concerns over the security of the BTC pipeline especially it passes through some areas where there has been some internal conflicts between insurgents and host nations. The internal problems in Georgia long lasting quarrels between the Abkhazian and Georgian created some concerns over the security of BTC. In addition to this, the PKK issue in Turkey raised some fears about the stability of the flow over BTC line. However, the governments of these countries took important steps in clearing some of the existing issues for the security of the pipeline. The PKK issue is no longer a serious threat to BTC security since the arrest of the leader of the organization. Under the circumstances, the possibility of interruption of the flow of oil through BTC pipeline is very low considering the security precautions taken by the host governments.

by the company executives. One of the main criticisms directed at the U.S. government was that the United States supported the BTC pipeline but was not willing to provide any financial support. As some Turkish scholars did, oil companies in the region also blamed American government for not providing any subsidy for the costly project. Nevertheless, the discovery of Kasghan reserves and the increasing oil prices after 1995 worked as an incentive for oil companies to drop their opposition to the BTC after long years of dragging their feet.

#### RUSSIAN RESISTANCE TO BTC AND NEGOTIATIONS OVER MEP

However, the Russian opposition to BTC never stopped and Russia kept pushing for the northern option that goes through Novorossiysk. Russian opposition to East-West corridor is related to many factors. One of them is the Russian fear of losing influence over the course of developments in the Caucasus and Caspian region. The fight for the MEP turned into a great competition between Russia and the U.S.-Turkish alliance. It was considered to be a game where winner takes all. Historically, Russia dominated the region especially after the arrival of Putin into Kremlin, Russia intensified its pressure over the Caspian affairs. Policy of Near Abroad proposes the continuation of the Russian sphere of influence in Central Asia, Caucasus and the Caspian region. A move by Western states or regional powers, i.e. Turkey, is considered as a direct threat to Russian interests in the region. The activities of the Western oil companies are considered to be a deliberate act of placing a wedge between Russia and ex-dominions. Because of these considerations, Russia strictly opposed to other options for the MEP that would not pass through Russian territory. The Russian activities in the Caucasus and the Caspian region

were directed to force the regional states to comply with the Russian requests in favor of the northern route. Russian support and transfer of a billion dollar value of weapon to Armenia during the Nagorno-Karabakh conflict and the Russian activities in Georgia have been seen as an indirect way of Russian pressure over the issues related to the main export pipeline.<sup>86</sup> According to Aydin, Russia “decided to keep Azerbaijan weak and on the defensive”<sup>87</sup> to achieve its aims in the region.<sup>88</sup>

The second reason that Russia insisted on the northern route is related to the financial benefits associated with the pipelines. Once the pipelines have been laid, it provides continuous and easy revenue for the host country. Despite the fact that Russia has one of the largest oil and gas reserves in the world, Russian economy is still in need of support.

Nonetheless, the Russian arguments in favor of the northern route have been challenged on several grounds. The first and the foremost concern over the Baku-Novorossiysk pipeline option is the issue of security. During the fight between Chechnya and Russia, the pipeline has been damaged and sabotaged by the Chechen insurgents. They have also used the pipeline to threaten the Russian military operations in the region. Additionally, the local people developed a habit of breaking into the pipeline to steal oil.

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<sup>86</sup> It is assumed that Moscow was behind the operations that resulted in the overthrow of Elcibey Government (Elcibey has been known for his strong pro-Turkish policies) in Azerbaijan in 1993 after he has completed some oil deals with western companies. The successor Aliyev barely escaped a coup attempt after the signing of the Deal of the Century in 1994 with a consortium of Western oil companies. According to Bolukbasi, Moscow has also been blamed for two coup attempts against Elchibey's successor Aliyev, whose opposition to the reintroduction of Russian military forces in Azerbaijan may have prompted Moscow to act. The first coup attempt took place in late September 1994, when the Azerbaijani deputy interior minister Roushan Javadov, in collusion with Prime Minister Huseinov challenged the Aliyev administration. Aliyev quelled the revolt, and Huseinov escaped to Moscow.<sup>62</sup> Javadov, who was pardoned by Aliyev, challenged him again in March 1995, but the coup failed and Javadov was killed during the clashes. (Bolukbasi “Ankara’s Baku Centered Transcaucasia Policy.”

<sup>87</sup> Aydin, “Oil, Pipelines and Security,” 17.

<sup>88</sup> For more details on the Russian activities to maintain its influence in the region see Arslan, *Hazarin Kurtlar Vadisi*, 125–253.

Despite the fact that Russia insisted on the Baku-Novorossiysk as MEP for Azeri oil, it could not provide a safe and a secure passage for the transportation of Azeri oil. Another hurdle for the Russian side was the Novorossiysk port itself. Due to the climate conditions, the port had to be closed at least 3–4 months a year. Considering the conditions and concerns stated above, the Azeri government and oil companies did not want to commit themselves to a highly problematic route, although the northern route was cheaper than the BTC.<sup>89</sup> Azerbaijan and AIOC opted for BTC which seemed to be much more stable and yet costlier.

The American support for Azeri government and also its insistence on BTC helped Azeri government to move forward with the western route.<sup>90</sup> We could also mention the fact that the Caspian countries particularly avoided Russian alternatives due to the fact that they indeed wanted to loosen Russian control over their countries. However, the situation for Kazakhstan and Turkmenistan is different. Their dependence on Russia is way greater than the Azeri people. Among these states, Kazakhstan depends

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<sup>89</sup> Despite the fact that Baku-Novorossiysk pipeline has a capacity of 180.00 on Azeri side and 340.000 b/d on the Russian side, Azerbaijan Oil Company have not been able to utilize it to its full capacity due to the interruptions because of the Chechen conflict. During 2004–05, AIOC transported 50.000 b/d of oil through this pipeline. On the other hand, Baku-Supsa has a capacity of 115.00 b/d and later expanded to 250.000 b/d. According to a report by *Alexander's Gas and Oil Connection* (1999), "A spokeswoman for the Azerbaijan International Operating Company (AIOC) said that the new Baku-Supsa pipeline was pumping oil at its full capacity of 115,000 barrels per day. The AIOC had originally planned to bring the early oil pipeline up to full capacity in June of this year, Tamam Bayatly said. All construction work on the pipeline itself has been completed, and the sixth and final pumping station along the Baku-Supsa route was finished earlier in May, she added. AIOC officials have said they are eager to make good use of the new pipeline, particularly since the Russian state pipeline operator Transneft appears to be having trouble keeping the Baku-Novorossiysk pipeline—the consortium's only other export outlet—open. The northern pipeline has been shut down repeatedly since the beginning of the year. Frequent interruption of service is not the only drawback of the northern pipeline; Transneft charges the AIOC and SOCAR \$ 15.67 for every ton of oil transported from the Azerbaijani border to Novorossiysk. By contrast, the cost of shipping one ton of crude from Baku to Supsa through the new pipeline has been figured at only \$ 2–3 per ton. The westward-leading pipeline may become even more economic if the AIOC builds new infrastructure facilities; with extra pumping stations and storage facilities at the Baku and Supsa terminals, industry experts say, the pipeline could handle 250,000 bpd." "Baku-Supsa Pipeline Reaches Full Capacity Ahead of Schedule."

<sup>90</sup> Without the support from the U.S. and Turkish government, it could have been remarkably difficult for Azerbaijan to resist Russian pressure for the Baku-Novorossiysk option.

on Russia the most. Kazakhstan has also the largest reserves among the Caspian countries excluding Russia and Iran. For the Kazakh oil, Russia is the only natural outlet under the current conditions. For this very basic reason, Kazakhstan's attitude towards Russia has been a lot more conciliatory compared to other countries of the region. Kazakhstan has to use the existing Russian pipelines to be able to export its production.<sup>91</sup> Although it has been quite difficult for Kazakhstan to deal with Russia<sup>92</sup>, they have come a long way with regard to the use of internal Russian pipeline network, compared to the early years of independence. With the competition of CPC (Caspian Pipeline Consortium) Kazakhstan now is able to transfer large volumes of oil to the Russian port of Novorossiysk.

Russia for long dragged its feet over the construction of CPC pipeline that was planned to carry oil from Kazakh Tengiz fields to the port of Novorossiysk at Black Sea.<sup>93</sup> When things really started moving in favor of BTC, Russia found itself in a position where it has to make certain moves to keep up in the competition. That is when Russia cleared up some of the issues with CPC; which Kazakhstan, Russia, and Chevron (one of the biggest American oil company) came to an agreement on the details of

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<sup>91</sup> Another important reason that forces Kazakhstan to be mindful of its policies towards Russia is its sizable Russian minority in the country. According to CIA World Book of 2006, the Russian minority takes up 30 percent of the Kazakh population. Available [Online]:

<<https://www.cia.gov/cia/publications/factbook/geos/kz.html>> [2 April 2006].

<sup>92</sup> As early as 1993, Kazakh officials were openly complaining that the new post Soviet regime in Russia was taking advantage of its pipeline monopoly to make Kazakhstan to pay a heavy price for its reliance on Russian gas line system. ...not only Russia but Russia use its monopoly purchaser to force Kazakhstan to accept only a fraction of the world price for gas entering Russia from western Kazakhstan, it also used its position as monopoly shipper to force the Kazakhs to pay much higher price for gas exported from Russia to eastern Kazakhstan. Roberts, "Energy Reserves, Pipeline Routes and the Legal Regime in the Caspian Sea," 79.

<sup>93</sup> One of the reasons for Russian policy is the idea that any oil that goes through Russia from Kazakhstan to world oil markets works against Russian share in the oil market. Having seen the Kazaks as their competitors, the Russians used their advantages to create problems to Kazakhstan and therefore extract more benefits. It was also the desire of Chevron and the Kazakh government to develop a pipeline that goes through Russia as the only natural outlet but less and less Russian control is given to Russians.

proposed pipeline.<sup>94</sup> On October 13, 2001 the Kazakh oil reached to Black Sea and started loading onto tankers. The CPC pipeline has been completed by 2003 and started its regular operation.<sup>95</sup> As the activities of the Western companies increased in the Caspian Sea area, Russia kept making new moves to counter the Western influence and also to be able to participate in the oil business in the region. Another step taken by Russia was the re-establishment of natural gas transaction with Turkmenistan. At a time when TCP (Trans Caspian Pipeline) had no promise for Turkmenistan, Russian proposal was welcomed by the Turkmen government. The negotiation of the deal and the agreement between the two countries officially ended the prospects for TCP. This was considered as a victory for Russia while it was seen as a setback for American and Turkish interests. Turkmenistan, although wanted to stretch towards western direction, was frustrated by several developments in the Caspian Sea. First of all, Turkey promised to buy large amounts of Turkmen gas from Turkmenistan to be transported by a pipeline built under the Caspian Sea.<sup>96</sup> This project was also supported by the American administration mainly because the TCP project would further reduce Russian influence

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<sup>94</sup> It was probably after the integration of the Russian oil company LUKOIL into the CPC project as a shareholder that the Russians started moving towards cooperation. Roberts, "Energy Reserves, Pipeline Routes and the Legal Regime in the Caspian Sea," 82.

<sup>95</sup> CPC has a complex organizational structure. Three Governments and ten companies representing seven countries participate in the project. Two joint stock companies—CPC-R (Russia) and CPC-K (Kazakhstan)—have been created to implement the project. CPC Managers and specialists are from shareholder companies. The initial construction of the pipeline was funded by oil producing shareholder companies, combined with the assets provided by the host governments. Future pipeline capacity expansions will be financed from the CPC's revenues. "Caspian Pipeline Consortium: General Information," Available [Online]:

<<http://www.cpc.ru/portal/alias!press/lang!en-us/tabID!3357/DesktopDefault.aspx>> [17 September 2006]. The Structure of CPC Shareholder Capital is the following: Russia–24%; Kazakhstan–19%; Oman–7%; Chevron Caspian Pipeline Consortium Co.–15%; LUKARCO B.V.–12,5%; Mobil Caspian Pipeline Co.–7,5%; Rosneft-Shell Caspian Ventures Ltd.–7,5%; Agip International (N.A.) N.V.–2%; Oryx Caspian Pipeline LLC–1,75%; BG Overseas Holdings Ltd.–2%; Kazakhstan Pipeline Ventures LLC–1,75%. "Caspian Pipeline Consortium: CPC Structure," Available [Online]:

<<http://www.cpc.ru/portal/alias!press/lang!en-US/tabID!3360/DesktopDefault.aspx>> [17 September 2006].

<sup>96</sup> According to the original proposals, Turkey promised to buy 16 bcm/y natural gas from Turkmenistan.

over the region and also prevent any Iranian involvement in the Turkmenistan. Russia and Iran fiercely opposed to such a project on the ground that it might cause serious ecological damage to the Caspian Sea as the base of the sea was known to be seismically active and not very steady. The further discovery of Azeri natural gas in the Shah Deniz area in the Caspian Sea and Azerbaijan's desire to sell this gas to Turkey complicated the project when Azerbaijan pulled its support from TCP in favor of its own benefits. Frustrated by these, Turkmen President Saparmurat Turkmenbashi blamed the U.S. government for favoring Azerbaijan over Turkmenistan and approached to the Russian offer in 2000, despite the fact that the deal with Russia had certain downsides.<sup>97</sup> The Turkmen gas is delivered to domestic market in Russia and to other former Soviet Republics, which are not able to pay their debt in hard currency.<sup>98</sup>

Another successful move by Russia during the negotiations for main export pipeline is the completion of Blue Stream Project with Turkey. Turkey and Russia agreed on the construction of a pipeline that would carry large amounts of Russian natural gas to Turkey.<sup>99</sup> Despite the technical and financial difficulties that was expected to slow down the project, the consortium was able provide finance in a short period of time. To everyone's surprise, the project started as soon as the parties agreed on the

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<sup>97</sup> Here one of the reasons that no serious project has been developed for Turkmen gas and oil production is that, it is the inability of the Turkmen government to attract foreign investors through making certain political and regulatory adjustments at domestic level.

<sup>98</sup> The stand off between Russia and Ukraine is a clear example of the situation mentioned above. Russia stopped transferring natural gas to Ukraine due to the disagreement on the price of the natural gas. Russia has been selling gas to Ukraine for and charging quite less than the world market average. (50\$ per 1000 cm where Russian sale to other countries were around 240\$ for the same amount. *Milliyet Gazetesi*, 4 January 2006. When the domestic politics in Ukraine followed a different track than what Russia expected, Russia decided to treat Ukraine the same way and increased to prices to 230\$. While Russia was charging 230\$ per 1000cm for Russian natural Gas, the customers for Kazakh and Turkmen natural gas paid 95\$. *Zaman Gazetesi*, 5 January 2006.

<sup>99</sup> Ironically, Russia initiated a project that involves laying pipes under Black Sea while it was opposing to the TCP project on the ground that undersea pipelines may bring ecological damage to the Caspian Sea and the marine life.



terms and conditions.<sup>100</sup> These moves by Russia are said to compensate what Russia had lost on the other side of the Caspian oil business namely the direction of the main export pipeline. The new deals and intense Russian involvement in the Caspian oil strengthened the Russian position in the whole picture. However, the U.S.-Turkish alliance won the second round when the presidents of Azerbaijan, Georgia and Turkey signed an agreement on the construction of BTC in 1999 in Istanbul.<sup>101</sup>

## OIL COMPANIES AND IRAN

In fact Russian policies were not the only factor that stalled the negotiations for the main export pipeline. The oil companies that invested in the Caspian Sea also created serious problems for the development of the negotiations over BTC. One of the main differences between the oil companies (Despite they are mostly American based oil companies) and the governments (both regional and external) is the fact that the oil companies are profit minded. They would like to move into the direction where they could extract more revenue from investments.<sup>102</sup> Unlike the oil companies, the governments of the regional and external countries had secondary or tertiary agendas. Geopolitical considerations most of the time took precedence over economic gains. As the fundamental way of thinking differed, the oil companies and the governments had

<sup>100</sup> The Turkish government has been criticized by the Turkish scholars and journalists for their inability to bargain a good deal out of the Blue Stream Project. While Russia sold its natural gas to European Countries for about 150\$ per a 1000cm, Turkey paid 260\$ for the same amount while the Russian sale to other countries averaged around 240\$. *Milliyet Gazetesi*, 4 January 2006.

<sup>101</sup> The President of the United States Bill Clinton was also present in the ceremony to show the support of the United States and its commitment to the project. Signed in 1999, almost 3 years of heavy negotiations and preparations, "On 18 Sept.2002, the construction of Baku-Ceyhan starts in a ceremony hosted by the Azerbaijan president. The pipeline is 996 millimeters in diameter, it will be 1760 km, and it will be ready sometime in 2005." Aghai-Diba, "Baku-Ceyhan Pipeline."

<sup>102</sup> See Svetlana Tsalik and Robert E. Ebel, *Caspian Oil Windfalls: Who Will Benefit, Caspian Revenue Watch*, Open Society Institute Central Eurasia Project (May 2003). Also see David I. Hoffman, "Azerbaijan: The Politicization of Oil," in *Energy and Conflict in Central Asia and the Caucasus*, ed. Robert Menon and Rajan Ebel Rowman (Littlefield Publishers, Inc., 2000).

certain issues to deal with, which eventually slowed down the developments of oil business in the region. First of all, when it comes to the MEP issue, the oil companies opted for the easiest and the cheapest option. As it was commonly accepted, Iran is the closest and the cheapest route for the export of Caspian oil. A pipeline from Baku could be linked to the internal Iranian network which would then find its way to Arabian Sea. During the negotiations for the MEP, Iran proposed many alternatives for the transportation of Caspian oil and tried to use every possible option to work its way for a better outcome for Iran. Although the Iranian proposals have been dismissed by the governments of the United States and Turkey, without even being given serious consideration, it created some confusion on the side of the oil companies and the regional governments.<sup>103</sup> The U.S. government had to provide incentives for the Azeri government to disregard any Iranian proposal with respect to the export of Caspian oil.<sup>104</sup> The American government also had to apply pressure to oil companies not to consider Iran<sup>105</sup> as an outlet for the Caspian oil export.<sup>106</sup> The reason for the U.S. attitude towards

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<sup>103</sup> Rob S. Sobhani, "President Clinton's Iran Option," *Caspian Crossroads Magazine* 1, no. 1 (Winter 1995). On the issue of oil companies vs. the U.S., see Nadr Entessar, "Iran: Geopolitical Challenges and the Caspian Region," in *Oil and Geopolitics in the Caspian Sea Region*, ed. Michael P. Croissant and Bülent Aras (Westport, CT: Praeger, 1999), 174.

<sup>104</sup> The United States was able to persuade Azeri government on double route and exclusion of Iran from Caspian oil development through establishing linkages between issues. By promising to provide help on the conflict between Armenia and Azerbaijan, the United States was able to secure Azeri support. Robert Axelrod and Robert Keohane argue that "linkage can be beneficial to both sides in negotiations and facilitate the agreements that might not otherwise be possible." Robert Axelrod and Robert O. Keohane "Achieving Cooperation Under Anarchy: Strategies and Institutions," in *Cooperation Under Anarchy*, ed. Kenneth A. Oye (Princeton, NJ: Princeton University Press, 1985), 239.

<sup>105</sup> However, "Former U.S. White House national security adviser Zbigniew Brzezinski says American efforts to isolate Iran and keep Caspian oil pipelines out of that country could push Tehran into collaboration with Russia to exclude western presence from the region. Brzezinski, who headed the national Security Council under President Jimmy Carter, told a Senate Foreign Relations subcommittee Wednesday that if the U.S. wants a stable Persian gulf and central Asian region, "some gradual accommodation is in the mutual interest of both countries." *RFE/RL*, Washington, 9 July 1998.

<sup>106</sup> The relationship between states and non-state actors started to change as the importance of the non-state actors in world politics started to rise. In the case of BTC and oil companies, the oil companies had to change their policies despite the fact that for long they perceived it against their interests. It all comes down to the fact that in areas of high politics, states will always force the non-state actors to comply with

Iran is obvious but some say that an Iranian option would direct the Caspian and Middle Eastern oil through the same outlet (Hormuz Strait) which would not make any sense if the Caspian oil is expected to provide diversification for imports. It is also the fact that Hormuz strait is already crowded with the transportation of huge Middle Eastern oil, and additional burden would not be a wise choice considering the issue from a perspective of Global Energy security. Iran, for its part kept maneuvering during the negotiations for MEP. Iran tactically sided with Russia from time to time and proposed easy access to Iranian oil network. Even then, the Iranian proposal for swapping the Caspian oil for its domestic use in the northern and central parts of Iran and making it available in the south for export to world markets, has been seen as a favorable option especially by the oil companies and Turkmenistan as well.

Iran and Russia created an alliance against American and Turkish side; however they were also indeed rivals considering the MEP as a single outlet. Therefore this alliance did not continue throughout whole discussions as their interests conflicted with each other. Russia and Iran share the same interests when it comes to slowing down the developments. It could also be said that, Iran from the very beginning knew that the American government would not allow any Iranian option to materialize but kept working on different options as a way of stalling the developments through creation of confusion on the other sides.<sup>107</sup> The idea behind stalling the developments was that they could maybe get a better deal in the future rather than accepting BTC as a main outlet. In

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their policies. For more details on the discussions about the rise of transnational actors and power of states; see Thomas Risse-Kappen, "Structures of Governance and Transnational Relations: What We Have Learned?" in *Bringing Transnational Relations Back In: Non-State Actors, Domestic Structures and International Institutions*, ed. Thomas Risse-Kappen (New York: Cambridge University Press, 1995), and Robert O. Keohane and Joseph S. Nye, Jr. "Transnational Relations and World Politics," in *Transnational Relations and World Politics*, ed. Robert O. Keohane and Joseph S. Nye, Jr. (Cambridge, MA: Harvard University Press, 1972).

<sup>107</sup> For more on Iranian Approach, see Peimani, *The Caspian Pipeline Dilemma*, 1–121.

fact oil companies also hoped for a change in the future and expected a more favorable solution rather than going for BTC, the western route. This mentality and expectations stalled the developments of MEP discussions until it became clear that the U.S. government and persistent Turkey will not go for a different alternative. With the rise in the oil prices after 1995–96, the oil companies dropped their opposition to costly BTC project.<sup>108</sup> With the accumulation of enough support and finance, the parties agreed on the construction of BTC as a main export pipeline for the transportation of Azeri oil and possible Kazakh oil from Kasghan reserves.

#### BTC: A DREAM COMING TRUE

Early years of negotiations for BTC have been marked with so many questions and confusions. People has pessimistic views about BTC coming into reality, even there have been number of people talking about BTC pipeline in terms of pipe dreams.<sup>109</sup> One of the points that need to be taken into consideration is the continuous U.S. support and Turkish insistence on the project. With the changing environment and increasing oil prices, BTC pipeline was chosen to be the main export pipeline in 1999. Even then it took six years to materialize because of the unexpected problems (most of them are related to political, economic and technical challenges) on the way. The issue of finance has been one of the main problems that the actors in the process had to deal with for a long period of time. The Turkish flexibility on the issue has helped the project to move

<sup>108</sup> Roberts, "Energy Reserves, Pipeline Routes and the Legal Regime in the Caspian Sea," 84.

<sup>109</sup> Martha Brill Olcott, "Pipelines and Pipe Dreams: Energy Development and Caspian Society" *Journal of International Affairs* 53, no. 1 (Fall 1999): 305; Manana Kochaladze, "Pipeline Dreams: The World Bank Oil Development and Environmental Protection in Georgia," *Multinational Monitor* 23 (5 May 2002). See also Nancy Lubin "Pipe Dreams: Potential Impacts of Energy Exploitation," *Harvard International Review*, Harvard International Relations Council (22 March 2000). After years of debate it seems the 3-billion-dollar Baku-Tbilisi-Ceyhan oil pipeline project will go ahead, or will it? Some industry experts remain unconvinced. Jon Gorvett. "Pipeline dreams?" *The Middle East* 38, no. 2 (November 2002).

on. Out of schedule but steady, the BTC pipeline has been completed in May 2005 and AIOC started loading the pipeline with oil. It took a year to fill the BTC pipeline to its full and first tanker was loaded on 13 June 2006, at the Turkish port of Ceyhan on Mediterranean.

The grand opening ceremony of BTC itself showed the importance of project for Turkey and for Azerbaijan and the other parties who took part in the process.<sup>110</sup> The leaders of the three countries depicted the BTC pipeline as a golden link that brings these countries together. Although not planned at the beginning, the establishment of the BTC pipeline may have helped to strengthen the economic and political relationship among these countries as well.<sup>111</sup>

## CONCLUSIONS

Blessed with large amount of oil and gas reserves, Caspian states found themselves in a dilemma right after they gained their independence. Apart from the technical and technological difficulties that they had to deal with to extract the natural resources, the transportation of oil to world markets presented to be one of the most difficult problems for the newly independent states. Kazakhstan, Azerbaijan and Turkmenistan do not have direct access to outside world and therefore are dependent on

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<sup>110</sup> The importance given to this project by the participating countries and the United States as an outside supporter of the project was quite visible from the amount of effort spent for the ceremony and the security measures taken for the diplomatic representatives of guest countries. In the ceremony, Turkey was represented at the highest diplomatic level with the participation of the President of the Turkish Republic, Prime Minister and several other ministries. Azerbaijan and Georgia were also represented by their Presidents. The ceremony was viewed by 400 journalists and reporters and Turkey and BP almost spent 3.6 million dollars for the whole ceremony including the concert given by Mariah Carey. *Zaman Gazetesi* reported this event with a title of 15 year Dream Came True ("15 Yillik Ruya Gercek Oldu.")

<sup>111</sup> Turkish President Ahmet Necdet Sezer in his speech during the opening ceremony of the BTC pipeline indicated that the pipeline will play an important role in the very strategic geographical location where most of the world's oil is produced (referring to Middle East and Caspian) and that BTC will be one of the cornerstone of the developments that provides stability in the region by connecting the regional countries together. *Zaman Gazetesi*, 14 July 2006.

the cooperation of neighbor countries. As soon as the western oil companies started investing, they also started looking for ways to export Caspian oil. Although at the beginning limited amount of production was somehow exported either through swaps or railroads, further discovery of new resources and expected increase in the oil production necessitated the construction of oil pipelines that would link the Caspian states to the open seas. (See tables below for the Caspian oil and Gas Production across recent years.) However, the issue of pipeline proved to be one of the most difficult and troublesome issues that they had to deal with. As the construction of pipelines involves neighboring states, the number of actors increased naturally which at the end caused complications.

Table 7:  
Oil Production: Caspian States

|              | 1999  | 2000  | 2001  | 2002  | 2003  | 2004  | 2005  |
|--------------|-------|-------|-------|-------|-------|-------|-------|
| Russian F.   | 304.8 | 323.3 | 348.1 | 379.6 | 421.4 | 458.8 | 470.0 |
| Azerbaijan   | 13.8  | 14.0  | 14.9  | 15.4  | 15.5  | 15.7  | 22.4  |
| Kazakhstan   | 30.1  | 35.3  | 40.1  | 48.2  | 52.4  | 60.6  | 63.0  |
| Turkmenistan | 7.1   | 7.2   | 8.0   | 9.0   | 10.0  | 9.6   | 9.5   |

*Source: BP Statistical Review of World Energy 2006, Unit: In Million Tones*

Table 8:  
Gas Production: Caspian States

|              | 1999  | 2000  | 2001  | 2002  | 2003  | 2004  | 2005  |
|--------------|-------|-------|-------|-------|-------|-------|-------|
| Russian Fed. | 551.0 | 545.0 | 542.4 | 555.4 | 578.6 | 591.0 | 598.0 |
| Turkmenistan | 21.3  | 43.8  | 47.9  | 49.9  | 55.1  | 54.6  | 58.8  |
| Kazakhstan   | 9.3   | 10.8  | 10.8  | 10.6  | 12.9  | 20.6  | 23.5  |
| Azerbaijan   | 5.6   | 5.3   | 5.2   | 4.8   | 4.8   | 4.7   | 5.3   |

*Source: BP Statistical Review of World Energy 2006, Unit: In Billion Cubic Meters*

In the Caspian context, the transportation of Azeri and Kazakh oil went through two distinct stages. The first stages of pipeline construction involved a limited amount of early oil from the offshore Azeri fields. The stake was not so high considering the daily pumping capacity of the pipeline projects. The limited number of the actors at the first stage, helped to the achievement of cooperation in a fairly short period of time. As we have discussed earlier, the willingness of the United States, Russia and Azerbaijan to come to a middle ground by making certain compromises further ameliorated the achievement of an acceptable solution. States did not have relative gain considerations as the stake at hand was not so high and the shadow of the future loomed large. Each party focused on what they wanted most, not on what others might get.

On the other, hand the second phase of the pipeline development turned out to be totally different.<sup>112</sup> As states and oil companies prepared for a main export pipeline, each party in the game favored an option that served their interest best.<sup>113</sup> It was either northern or western or the southern route that the Caspian oil would be carried. The benefits associated with the realization of their objectives is considered to be big and the loss is believed to be huge. The zero-sum thinking dominated the MEP negotiations throughout most of the decade.<sup>114</sup> With regard to cooperation on the MEP issue, we

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<sup>112</sup> Faruk Arslan depicts the Caspian region as a "Valle of the Wolves" for the rivalry and intense competitions over the Caspian. Arslan, *Hazarin Kurtlar Vadisi: Petrol Imparatorlugundaki Guc Savaslari*.

<sup>113</sup> Hooshang Amirahmadi considers the rivalry in the Caspian region as a negative force that creates further hazard for the future security of the region. He argues that "the current positions held by major players involved often ignore this complexity in favor of narrowly defined strategic and economic interests largely informed by the shortsighted animosity, rivalry or alliances." Amirahmadi, "Pipeline Politics in the Caspian Region," 163. He also claims that the one sided choice made by U.S.-Turkish alliance will further the split between regional countries by excluding Russia and Iran, which would eventually endanger the security in the region. (Ibid., 167-69)

<sup>114</sup> As Robert Axelrod and Robert O. Keohane suggest, "achieving cooperation is difficult in world politics. There is no common government to enforce rules, and by the standards of domestic society, international institutions are weak. Cheating and deception are endemic.... World politics is not a homogeneous state of war: cooperation varies among issues and over time." Axelrod and Keohane "Achieving Cooperation under Anarchy: Strategies and Institutions," 226.

consider that the cooperation has not totally been achieved considering the fact that Russia and Iran never accepted BTC route as a main outlet for the Caspian oil. One of the purposes of this chapter was to find out the reasons for the lack of interstate cooperation over energy development in the Caspian Sea region. In that context, we may assert that one of the most essential reasons for the absence of interstate cooperation (this also involves state and non-state actors) is the relative gain considerations which drew actors away from each other as each actor tried to exclude an option that might advantage others. The U.S. policy to exclude Iran and to limit Russian control of the future of oil developments in the region and in the same line, Russian policy to maintain a sphere of influence in the region by limiting the presence of Western powers clearly indicates a relative gain policy by each state. In a setting where actors are obsessed with relative gain thinking, cooperation among actors is not expected to occur. In the case of MEP negotiations, cooperation among all the involved parties has not been achieved. However, the United States was able to deliver its promise to Turkey on the realization of BTC by applying pressure on the oil companies to bring them to the table.<sup>115</sup> Within this context, we might argue that the United States had to use its hegemonic power to convince oil companies and regional countries (Azerbaijan and Kazakhstan) to accept

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<sup>114</sup> See Amirahmadi, "Pipeline Politics in the Caspian Region," 13–18.

<sup>115</sup> The project also has been supported by Israel and Jewish lobby. Andrew Killgore argues that Israel wanted to prove that Turkish alliance with Israel pays off in different areas. Kilgore, "Ideology Triumphs Economic Efficiency, as the Baku-Tbilisi-Ceyhan Pipeline Opens," 32. See also Suat Taspinar, "Turkiye-Israil Ittifaki," *Sabah Gazetesi*, 1 September 1997. For more information on the lobbying activities of Caspian states and oil companies in the United States to get American support in favor of their own interests, see Stone H. Peter "Caspian Wells Come in for K Street," *National Journal* 31, no. 11 (March 1999): 680. (Info Trac One File. Thomson Gale. Old Dominion University Library. 8 Aug. 2006), [http://find.galegroup.com.proxy.lib.odu.edu/itx/infomark.do?&contentSet=IAC-Documents&type=retrieve&tabID=T002&prodId=ITOF&docId=A54309521&source=gale&srcprod=ITOF&userGroupName=viva\\_odu&version=1.0](http://find.galegroup.com.proxy.lib.odu.edu/itx/infomark.do?&contentSet=IAC-Documents&type=retrieve&tabID=T002&prodId=ITOF&docId=A54309521&source=gale&srcprod=ITOF&userGroupName=viva_odu&version=1.0)



BTC as a main outlet; and also Azerbaijan, Kazakhstan and Turkmenistan not to consider oil transaction with Iran.

In addition to this is the self interest considerations of the actors involved in the negotiations. While Russia pushed for the northern route, the U.S, Turkey and Azerbaijan insisted on the western route. On the other hand Iran proposed its own territory as a passage for the Caspian oil produced by Azerbaijan and Kazakhstan and some of the oil companies have inclined towards Iranian side as the Iranian proposals seemed to be shorter and cheaper. This has created an environment in which multiple actors interacted with fundamentally different and conflicting interests. Considering the existence of varieties of alternatives each state leaning towards one direction, the expected cooperation among the actors has been at its best slow to emerge.

Another reason that might explain the slow emergence of cooperation on the MEP issue is the number of actors participated in the negotiations. The number of actors in the MEP discussions increased and the likelihood of cooperation diminished. A large group of state and non-state actors with different agenda and concerns did not produce an environment that is readily conducive to cooperation. Therefore; we may argue that the number of actors in the MEP negotiations also prevented the emergence of cooperation among the involved actors in a short period of time.

Figure 2: Existing and Projected Pipelines



Source: International Energy Agency

## CHAPTER V

## CONFLICTS IN THE CAUCASUS AND CASPIAN OIL DEVELOPMENT

Throughout the history, the Caucasian region has been dominated by outside powers. The transcaucasian region has been ruled by the Turkic Empires, Persians, and the British and finally fell in to the hands of the Soviets.<sup>1</sup> With the arrival of Communist Russia, the region has been included under the Soviet Union; theoretically abolishing the nation states. The issue of internal borders and the existing conflicts among the neighboring states has been suppressed during the Soviet era. The Soviet rhetoric of brotherhood under communist umbrella did not quite help to the elimination of the existing disputes related to land and border. But the strict and heavy handed Soviet policies helped these issues to be frozen for a long period of time. Through the end of the Soviet Union and after its break up, the existing issues in the Transcaucasian region began to emerge. As the Soviet Russia lost its power and control of the former republics, these states had to deal with internal and external issues. Caught in the phase of transition to independence, the issues of minorities and autonomous regions have caused a great deal of problems for the Transcaucasian states. Although some of the issues purely remained as an internal issue of nation states, the extent of the violence and the potential for spread to regional states internationalized the conflicts.<sup>2</sup>

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<sup>1</sup> "The Caucasus's complex and shifting mix of cultures, religions and nationalities, has long been a source of potential instability. As a rule, its communities have lived in harmony only, when peace has been imposed by an outside power. For the past one hundred and fifty years, that power was the Russian empire and its successor, the Soviet Union." Quoted in Alishov Dadash Rahim, "The Role of Caspian Oil in Maintaining Stability in the Caucasus Region: In the Case of Mountainous Karabakh Conflict." (Ph.D. diss., Keele University, UK, 1999). See also "Transcaucasia: Hell is Other People," *Strategic Survey* (1993–1994): 89.

<sup>2</sup> Sokolsky and Charlick-Paley, *NATO and Caspian Security*, 13.

In this chapter, I will mainly focus on the conflicts and subsequent wars between different ethnic groups and states in the Caucasian region, especially the conflict between Azerbaijan and Nagorno-Karabakh Armenians which had the greatest impact on the course of the developments in the region. By looking at the consequences of these wars and violence, I would like to assess the impact of these conflicts on the achievement of interstate cooperation in the Caspian region over the issues related to the development of Caspian oil. The long-lasting conflicts in the region prevented the early development of the oil industry and the flow of foreign direct investment. The countries of the Caspian Sea were in serious need of foreign investment for oil extraction in the offshore oil fields, but the wars in the transcaspian region and instability accompanied with it slowed down the arrival of western oil companies.

There are number of examples of such conflicts after the end of the Cold War; however within the context of Caucasian region there has been three major of conflicts that has caused a great deal of concern for the region. Especially within the context of a globalized world and the rise of international institutions dealing with such issues, the conflicts in the Caucasian region became a global issue. As the world community paid more and more attention to the issues of human rights and gross human rights violations, protection of the rights of individuals, minorities and refugees, the extend of the regional conflicts reached to the other parts of the world.

Another factor that put the regional conflicts in the Transcaucasian region to International scene is the oil reserves in the Caspian region. As the major oil companies planned to get a share of the Caspian oil, the western states including the United States had to pay more attention to the issues of the Caspian region. The conflict between

Azerbaijan and the Nagorno-Karabakh Armenians, the Chechen-Russian conflict and the internal conflicts in Georgia constituted the main sources of instability in the region. Despite the fact that some of these conflicts were domestic in nature, the possibility of the spread of these conflicts and the geopolitical importance of the region internationalized the problem. Another aspect of the ethnic strife in the transcaucasia is that the violence between different parties carried a potential for vast migration to neighbor countries which eventually necessitated the involvement of the other states.

Conflict and cooperation is an important area of study for international relations theories. In my examination of the impact of these conflicts on the cooperative/non-cooperative behavior of the regional states, I will be referring to the approaches from international relations theory. What causes cooperation or defection is an important question and under what conditions do states choose to cooperate? Within the context of the Caspian region, the choices of the states in terms of resorting to military options will be examined.

The main issue that all these come down to is the achievement of cooperation among the major actors over the issues related to the development of Caspian oil and its transportation to world oil markets. Among the conflicts that had the greatest potential to spread to the region is the conflict between Azerbaijan and Nagorno-Karabakh Autonomous region (NK).<sup>3</sup> It has also been the main source of instability that affected the oil business in the Caspian region. When it comes to the development of economy, industry and foreign investment, existence of stability becomes a very important issue.

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<sup>3</sup> Autonomy in a political and legal context refers to the power of social institutions to "regulate their own affairs by enacting legal rules." In international law, autonomy is taken to mean that "parts of the state's territory are authorized to govern themselves in certain matters by enacting laws and statutes, but without constituting a state of their own." Svante E. Cornell, "Autonomy as a Source of Conflict: Caucasian Conflicts in Theoretical Perspective," *World Politics* 54, no. 2 (January 2002): 245.

Business follows secure and stable areas. In the Caspian context the question we ask is how has the business of oil development been affected by the conflicts between different groups. After examining the military conflicts and wars in the Caucasus region, I will move onto the investigation of the impact of these wars on the interstate relationship and cooperation on the issue of oil development in the Caspian region.

#### OIL DEVELOPMENT AND CONFLICT IN THE CASPIAN REGION: AZERBAIJAN, ARMENIA & NAGORNO-KARABAKH

The roots of the conflict between Azerbaijan and Armenia and the Nagorno-Karabakh Autonomous region goes back to the eighteenth century where Armenians had the idea of establishing a great Armenian Empire comprising of the areas of Armenian population in the Caucasian region. Throughout the history, the area that is populated by many ethnic groups including Armenians has been controlled by Muslim Turks and Persians.<sup>4</sup> Russians took control of the region, including Nagorno-Karabakh, after defeating Persians in 1828 which resulted in the treaty of Turkmenchai that marked the beginning of Russian rule in the region. Despite the Ottoman and the British presence in the region for some time, the end of World War I and the subsequent Bolshevik revolution and the rise of the Soviet Empire, the region has been put back under Soviet control.<sup>5</sup> During the Persian, Ottoman and British times, the status of the Nagorno-Karabakh changed hands but mostly remained under Azeri control. Nagorno-Karabakh has been inhabited by the Armenians in majority and Azeri population remained as a

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<sup>4</sup> For details of early history see George A. Bournoutian, *Two Chronicles on the History of Karabagh: Mirza Jamal Javanshir's Tarikh-e Karabagh and Mirza Adigözal Beg's Karabagh-Name* (Costa Mesa, CA: Mazda Publishers, 2004).

<sup>5</sup> Edgar O'Ballance, *Wars in the Caucasus, 1990–1995* (New York: New York University Press, 1997), 3–22.

minority in the region throughout the history with varying degree of proportion depending on the mass movements and the policies of controlling states in terms of the settlement of their subjects.<sup>6</sup>

The Azeri and Armenian historians tend to view the history of Nagorno-Karabakh from their own perspectives and lay claims on the region.<sup>7</sup> The differences between the two nations have been one of the causes for conflict throughout all history. Azeris and Armenians fought over Nagorno-Karabakh region for long time. As long as the area was controlled by outside powers, the issue remained dormant. As soon as the external control loosened, violence erupted between two nations.<sup>8</sup>

The issue of borders on the southern Soviet flank was determined by the Treaty of Moscow between Turkey and the Soviet Empire in 1921. Soviet Russia had to favor Turkish opinions in the Caucasus region because of the fact that, SSSR needed good relations with Turkey at a time when the communist Russia needed allies and saw Turkey as a potential ally against the western block. With this treaty, Nakhchivan was given a status of Autonomous Soviet Republic where as Nagorno-Karabakh was given to Azeri control and became an *oblast*.<sup>9</sup> Although Azeris were happy about the Soviet's decision, the Armenians objected to this division but returned no result. Despite the fact that Soviets favored a Turkish approach over the division of the Caucasus states and

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<sup>6</sup> "Nagorno-Karabakh is a de facto independent republic in the South Caucasus, officially part of the Republic of Azerbaijan, about 270 kilometers (170 miles) west of the Azerbaijani capital of Baku, and very close to the border with Armenia." "Nagorno-Karabakh," Available [Online]: <http://en.wikipedia.org/wiki/Nagorno-Karabakh> [27 August 2006].

<sup>7</sup> For Armenian views see Levon Chorbajian, ed., *The Making of Nagorno-Karabakh: From Secession to Republic*, (Palgrave Macmillan, 2001) and Richard G. Hovannisian, "Historical Memory and Foreign Relations: The Armenian Perspective," in *The Legacy of History in Russia and the New States of Eurasia*, ed. S. Frederick Starr (New York: M.E. Sharpe, 1994), 249–50.

<sup>8</sup> Tadeusz Swietochowski, "The Problem of Nagorno-Karabakh: Geography versus Demography under Colonization and Decolonization," in *Central Asia: Its Strategic Importance and Future Prospects*, ed. Hafeez Malik (Basingstoke: Macmillan, 1994), 143–58.

<sup>9</sup> Pustilnik Marina, "Caucasus Stresses," *Transition* 15 (March 1995): 16–18.

autonomous regions, the old Soviet divide and conquer rule remained in place. By favoring Turkish approach, Soviets achieved both a Turkish sympathy at that time and at the same time they had a good system of control over the region. Alexei Zverev suggests that the Soviet decision to accommodate Turkey “reflects wider Bolshevik concerns to appease Kemal Ataturk and placate the restive Moslem population which was being subdued by Soviet Russia.”<sup>10</sup> Nagorno-Karabakh Autonomous region became a trouble spot for both Azeris and Armenians that Soviets could use whenever the occasion called.<sup>11</sup> This increased the dependence of Azeris on the Soviet army to maintain control over the region. Regardless of the past and the present, the Karabakh Armenians tried to gain their independence and/or unification with Armenia throughout the Soviet era. With *glasnost* and *perestroika*, a window of opportunity was open to Armenians. Karabakh Armenians demanded unification with Armenia in 1988 and this was quickly rejected by the Azerbaijani government. During the same year, the Supreme Soviet of USSR discussed the issue and decided to keep Nagorno-Karabakh under Azerbaijani control. This was met by heavy protest by the Armenians and marked the start of violence between the two communities.

The following days, months and years, the violence escalated between the Armenians and the Azeris. It started out as an internal problem of Azerbaijan but quickly involved Armenia as well. As soon as the social unrest erupted, mass migrations followed suit. The following years witnessed a huge number of people being forced out of their

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<sup>10</sup> Alexei Zverev “Ethnic Conflicts in the Caucasus 1988–1994,” in *Contested Borders in the Caucasus*, ed. Bruno Coppieters (Pleinlaan Brussels: VUB University Press, 1996).

<sup>11</sup> Svante Cornell argues that “the provision of institutionalized, territorial autonomy for an ethnic minority may cause the opposite of its intended effect – it may augment rather than reduce the potential for conflict between a minority and central government.... Autonomy is neither a sufficient nor a necessary cause of conflict. Yet, it has a strong causal relationship with both a minority’s willingness and especially its capacity to revolt. It is reasonably clear that within the Caucasian context, autonomy has been a source of conflict and not a solution to it.” Cornell, “Autonomy as a Source of Conflict,” 275.



homes and moved towards safe territories. Because of the ethnic structure of the region and the historical mixture of different populations, the transcaucasia represents a land of multiple nationalities; Armenians living in Azerbaijan, Georgia and elsewhere in the region while Azeris inhabited parts of Armenia and Georgia as well. Under volatile conditions, ethnic minorities suffered the most. In the case of Nagorno-Karabakh conflict; as soon as the violence started, ethnic minorities became the victim of heavy harassment by the local people as a response to the ongoing political rivalries. Hundreds of thousands of Azeris had to move out of Armenia and the Azeri villages in Nagorno-Karabakh with an estimated figure around 200,000–250,000 people. An approximate number of (200,000) Armenians fled Azerbaijan towards Armenia for the same reason as the harassment and threat increased.<sup>12</sup>

In 1988, the events that started in Sumghait marked another cornerstone of the inter-ethnic conflict between Armenia and Azerbaijan. The killing of two Azeris by Armenians caused a public fervor in Azerbaijan and led to the killing and throwing out of Armenians in Azerbaijan. A total of 32–36 people have been killed in the events while the local authorities did little to stop the riot.<sup>13</sup> In response to the Azeri outrage in Sumghait, Azeris in some villages have been pushed out and their homes were burnt in Armenia. As a matter of fact, each event led to another which in the end worsened the conditions. Angry crowds in the streets of Azerbaijan and Armenia demanded revenge for those who have fallen victim to ethnic violence. Governments had hard time trying to control their own people. As the social unrest grew, the dissent with governments caused

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<sup>12</sup> Edmund Herzig, *The New Caucasus: Armenia, Azerbaijan and Georgia* (London: Royal Institute of International Affairs, 1999), 66.

<sup>13</sup> Armenian sources reported these numbers by ten times higher compared to other sources which indicates the tendency of each side to use the incidents in their own policies. Svante E. Cornell, *Small Nations and Great Powers: A Study of Ethnopolitical Conflict in the Caucasus* (Richmond: Curzon Press, 2001), 82.

the rise of popular fronts. In Azerbaijan, APF (Azerbaijan Popular Front) and in Armenia, ANM (Armenian National Movement) gained popular support. With their nationalist rhetoric and severe criticism of current socialist governments, the political situation in the two republics became more fragile. The rise of APF was viewed in suspicion by Moscow which culminated in the events of Black January. The invasion of Baku in 1990 by the Soviet troops to root out the APF leaders and supporters increased anti-Moscow sentiments in Azerbaijan, contrary to the Soviet policies.<sup>14</sup> The nationalistic fervor did not stop but gained momentum in both Azerbaijan and Armenia. The Soviet troops stationed in Baku, protecting the Soviet regime in Azerbaijan was also seen as a threat to Armenia in the sense that Soviet military did not do much about the ethnic conflicts that had been going on.<sup>15</sup>

Another turning point in the history of communal violence is the start of Operation Ring by the Soviet forces in Azerbaijan and Azeri Police in 1991. The main purpose of the operation was to search for illegal weapons in the Armenian provinces to prevent the formation of guerilla warfare by the Armenians. At the same time, the Soviets planned to teach a lesson to Armenian state for their demand for independence from the Soviet Union. However, the whole operation alienated the Armenians from Soviets and increased the solidarity to defend themselves against the Russians and the

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<sup>14</sup> “What came to be known as Black January in Azerbaijan—the bloody takeover and occupation of Baku by Soviet troops on 20th January 1990—was the culmination of heightening nationalist fervor in Armenia and Azerbaijan, and growing inter-communal violence in the Azerbaijan capital itself. Moreover, Black January had brought inter-ethnic tensions and anti-Moscow feelings to a new level in both republics, propelling Armenia and Azerbaijan further down the road toward open warfare. Black January had a momentous impact on the parties involved in the conflict. The brutal use of Soviet troops in Baku and the repression of the APF (Azerbaijan Popular Front), did not root out the Azerbaijani nationalist movement, or prevent re-establishing strong links with the centre.” “The Role of Caspian Oil in Maintaining Stability in the Caucasus Region: In the Case of Mountainous Karabakh Conflict,” Chapter 1, Available [Online]: <http://www.azerbaijan.com/azeri/dadash2.htm> [23 August 2006].

<sup>15</sup> For more on the details of the human rights violations by both sides, see Rachel Denber, *Bloodshed in the Caucasus: Escalation of the Armed Conflict in Nagorno-Karabakh* (New York: Helsinki Watch, 1992).

Azeris.<sup>16</sup> Operation Ring carried a different character from the previous violence between Azerbaijan and Armenians of Nagorno-Karabakh. For the first time, the Soviet troops actively supported Azeri side against Armenians. The Azeri government in Baku (Ayaz Muttalibov, pro-Soviet) depended on Moscow in their battle against Armenians. On the other hand the Armenians had to rely on their own resources in their struggle for independence and started forming armed units. It is around this time that the nature of the conflict changed to direct military confrontation between the Azeri military and the Armenian militias. The end of the Soviet Empire weakened the Azeri position as the Azeri resistance to Armenian drive for independence and unification with Armenia depended highly on Soviet military units. The nature of the conflict has also changed to interstate conflict soon after the Armenian and the Azeri government declared independence from Soviet Empire. Followed by the Azeri declaration of independence, NK Republic in September 1991 declared itself as an independent unit with the borders of NK Autonomous Oblast. Azerbaijan Republic reacted harshly to this and abolished the status of NKAO and reduced it to a region. However, this did not mean much to the either side since the NK territory was well controlled by the Armenians where Azeri military had little control and was quickly losing the region.

The years following 1992–94 have shown a different character as the nature of the conflict turned into a direct military confrontation. After three years of struggle and ethnic violence and irregular clashes, starting with 1992, the issue of NK turned out to be a full scale war between NK Armenians and Azeris. NK Armenians has been supported by Armenia financially and militarily. The Armenian Diaspora has provided a great deal of financial support for the Armenian cause in NK. On the other hand, Azerbaijan for

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<sup>16</sup> Cornell, *Small Nations and Great Powers*, 90.

long depended on Soviet military to suppress demands for independence. Turkey as an ally for Azerbaijan also provided help for Azerbaijan. Because of the fragile balance in the region, Turkey's options have been limited during the times of full scale war.<sup>17</sup> Still there are numerous sources that acknowledge that Turkey provided arms and other contribution to Azerbaijan underhand.<sup>18</sup> Armenia as an ally of NK refrained from recognizing the independence of NK as it may have caused complications for Armenia at international level. Despite the fact that Armenia does not recognize NK's independence, it is generally accepted as a political move. Armenia has involved in every step of the way as a guarantor for the NK Armenians.

Starting with 1992, Armenian offensive began to move towards the Azeri populated villages in NK region. Having prepared itself for military confrontation, Armenians successfully defeated Azeri military and advanced towards Azerbaijan. In addition to the forced migration of the inhabitants of the Azeri villages, the Armenian army committed gross human rights violations. Khojaly<sup>19</sup> represents the peak of Armenian atrocities towards Azeris where the town has been burnt and the remaining people fled to Azerbaijan.<sup>20</sup> According to some independent resources, the Armenians have killed and mutilated 600–1000 people.<sup>21</sup> The Khojali massacre created a fear in the remaining villages that the Azeri people fled their homes before the arrival of Armenian

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<sup>17</sup> This is partly due to the fear of Russian involvement on the Armenian side and also the existing commercial links between Russia and Turkey. Kamer Kasim, "Nagorno-Karabakh Conflict, Caspian Oil and Regional Powers," 191.

<sup>18</sup> *Ayin Tarihi*, 12 February 1992. Also Available [Online]:

<http://www.byegm.gov.tr/YAYINLARIMIZ/AyinTarihi/Ayintarihi.htm> [29 October 2006]

<sup>19</sup> For a narrated coverage of Khojaly massacre and NK conflict, see Thomas Goltz, *Azerbaijan Diary: A Rogue Reporter's Adventures in an Oil-Rich, War-Torn, Post-Soviet Republic* (Armonk, NY: M.E. Sharpe, 1998), 17–131.

<sup>20</sup> Araz Aslanlı, "Tarihten Günümüze Karabağ Sorunu," *Avrasya Dosyası* 7, no. 1 (Spring 2001): 404.

<sup>21</sup> Hugh Pope says that "600 Azerbaijanis Slain at Khojaly," *Los Angeles Times*, 12 June 1992, A6.

army. The capture of the Lachin corridor that connects NK to Armenia provided a direct link to Armenia which eventually made the Armenian contribution to war easier.

The Azeri offensive at different times produced no tangible results and eventually was pushed back. The initial loss of war caused an internal political instability in Azerbaijan. The last pro-Soviet government had to resign (Ayaz Muttalibov) and Elchibey Government (APF) assumed control.<sup>22</sup> Elchibey promised victory in two months. In 1992 Azeris carried out successful operations and pushed back Armenian military in many of the areas, however, the Lachin corridor remained under Armenian control. Although the balance shifted towards Azeris in 1992, the Armenians regrouped and took control of strategic areas including Kelbajar in 1993. Starting with the fall of Kelbajar, Armenian government gained upper hand and further advanced into Azeri territories. The fall of Kelbajar sparked a new wave of political discussion in Turkey. The President of Turkish Republic argued that the advance of the Armenian army into Azeri territories should be viewed from the perspective of the establishment of Great Armenia which may involve Turkish territories in the future therefore Turkey needs to be involved in the conflict to put a stop to Armenian advances. On the other hand Turkish Prime Minister Suleyman Demirel insisted on the necessity to maintain a neutral status or at least avoid a direct military confrontation, referring to the fragility of the situation as it may have repercussions for Turkey if Russia reacts to Turkish moves.<sup>23</sup> The losses on battleground diminished Elchibey's popularity and created splits in Azeri army. Elchibey

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<sup>22</sup> Faruk Arslan states that pro-Turkish, anti-Russian Elchibey's rise to power made the Russian administration very anxious. Especially Elchibey's plans to go into oil business with Turkey and construction of pipelines resulted in the overthrow of APF with Russian support. Arslan, *Hazarin Kurtlar Vadisi*, 128.

<sup>23</sup> *Ayn Tarihi*, 7, 3 April 1993.

had to leave Baku against the popular dissent and the pressure from Army.<sup>24</sup> Heydar Aliyev replaced Elchibey and stabilized the internal politics in the coming years.<sup>25</sup> However, the following offensives under Aliyev's government's directives did not produce expected results and Azerbaijan lost around 20–25 percent of its territory to NK Armenians.

One of the reasons for the failure of Azeri army against NK Armenians was the continuing internal political clashes that paralyzed a systematic warfare by Azeri military. Another factor that contributed to Azeri failure in the battlefield was the Russian support for Armenia. According to several sources, Russians provided military equipment around a value of 1 billion dollar.<sup>26</sup> One of the reasons that shifted Russian focus towards Armenian side was the rising anti-Russia, pro-Turkish Elchibey government and its respective policies. In addition to this was the Azeri intransigence in participating in the CIS<sup>27</sup> and station of Russian troops on Azeri soil.<sup>28</sup> As Azeris rejected the Russian demands, Russia sided with Armenia to pressure Azerbaijan.

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<sup>24</sup> "In June 1993, Surat Husseinov, a renegade colonel who had commanded a militia brigade that was loosely incorporated into the newly-created Azerbaijani army, overthrew the Azerbaijani Popular Front (APF) government led by President Abulfaz Elchibey. The APF had come to power in May 1992, and by the time of Husseinov's revolt was besieged over losses in Nagorno-Karabakh. Husseinov's revolt paved the way for the rise to power of Azerbaijan's current president, Heydar Aliyev, who first had himself installed as chair of the parliament. On October 3, 1993, Aliyev was elected to the presidency in an improbable Soviet-style election in which he received 98.8 percent of the vote. An inexplicably high 96 percent of eligible voters were reported to have participated. President Aliyev named Surat Husseinov prime minister." Human Rights Watch on Azerbaijan, "Political Turmoil: Background," Available [Online]: <<http://hrw.org/reports/1999/azerbaijan/Azer0799-02.htm>> [10 Sep 2006].

<sup>25</sup> Heydar Aliyev (May 10, 1923–December 12, 2003) served as president of Azerbaijan for the New Azerbaijan Party from June 1993 to October 2003.

<sup>26</sup> This has not been acknowledged by Russians. Russians denied their assistance to Armenia and the transfer of large military equipment. In doing so, Russians tried to force Azeri towards Russian demands on CIS and also remain as a neutral actor in the development of peace process. For Russian policies in the conflict, see Thomas De Wall, *Black Garden, Armenia and Azerbaijan through Peace and War* (New York: New York University Press, 2003), 170.

<sup>27</sup> Aliyev in 1993 joined CIS and estimated that by joining the CIS and signing a bilateral security agreement with Moscow, he would secure Russia's neutrality in the Karabakh conflict. Aliyev on National television in June 2000 said that "the key to settling regional conflicts such as the Karabakh conflict is, in Moscow." Dina Malysheva, "The Conflict in Nagorno-Karabakh: Its Impact on Security in the Caspian

Under the circumstances, the NK Armenians captured a massive Azeri territory without much resistance.<sup>29</sup> Since Azerbaijan had no hope at that time for another successful military operation and the Armenians captured Lachin corridor and established a buffer zone between Azerbaijan and Armenian settlements, a Russian brokered ceasefire agreement has been signed by both sides on May 16 1994. This ceasefire has been in place since then despite the occasional shootouts on both sides.

The war between Armenia and Azerbaijan ended with the victory of Armenians and a humiliating defeat for Azerbaijan against smaller number of former subject. The total death toll is estimated to be around 20,000–30,000 people whereas a 1.5 million people have been moved out of their homes. Azerbaijan is burdened with a huge number of refugees (around 1 million) compared to a 6.5 million population.

#### NAGORNO-KARABAKH CONFLICT AND PEACE PROCESS: A DIFFICULT ROAD AHEAD

The conflict over Nagorno-Karabakh started as an internal problem. During the Soviet period international community had little chance of involving in the settlement of

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Region,” in *The Security of the Caspian Region*, ed. Gennady Chufrin (New York: Oxford University Press, 2001), 260.

<sup>28</sup> “Geidar Aliyev talks about the conflict between Armenia and the role Russia can play in resolving the conflict. Armenian armed forces continue to attack, and several districts of Azerbaijan such as Zangelan, Kubatly and Fizuli have been occupied by them. Measures are being taken to improve the relations between Russia and Azerbaijan as the former has the potential to help end the conflict.” Source Citation: Bangersky, Aleksandr. Geidar Aliyev is counting on Russia. “CIS Summit: Some Gains, New Snag on Karabakh,” Interview with Geidar Aliyev, leader of Azerbaijan. *The Current Digest of the Post-Soviet Press* 45, no. 52 (January 1994): 17. InfoTrac OneFile. Thomson Gale. Old Dominion University Library. 20 Sep. 2006. Available [Online]:

<[http://find.galegroup.com/itx/infomark.do?&contentSet=IAC-Documents&type=retrieve&tabID=T002&prodId=ITOF&docId=A15223468&source=gale&srcprod=ITOF&userGroupName=viva\\_odu&version=1.0](http://find.galegroup.com/itx/infomark.do?&contentSet=IAC-Documents&type=retrieve&tabID=T002&prodId=ITOF&docId=A15223468&source=gale&srcprod=ITOF&userGroupName=viva_odu&version=1.0)> [3 May 2006]

<sup>29</sup> When Armenians move along line towards 10 kilometers to Nakhchivan, Turkish ministers had a meeting with a decision to inform Armenia on the determination of Turkish government on the territorial integrity of Nakhchivan which have been guaranteed by treaties between Moscow and Turkey in 1921 (Treaty of Kars in 1921). *Ayn Tarihi*, 18 March 1992.

disputes. It was up to the Soviet Union to mediate the differences among the conflicting parties. The continuation of the war between Azerbaijan and NK Armenians severely hampered the prospects for oil development. Under those conditions, Azerbaijan had no way of focusing its attention to oil industry and oil extraction.

The eruption of the conflict into a full scale war coincided with the break-up of the Soviet Union and the declaration of independence of the two states. As the intensity of violence increased the international community started to pay more attention. Especially the Khojaly massacre by Armenians sparked a new wave of international involvement in the conflict.<sup>30</sup> Russia has been one of the main actors in the peace process; however the Russian policies in the region have been met with great suspicion and distrust. The Russian involvement on the Armenian side discredited Russia as an impartial arbiter in the eyes of the Azeris; while the same could be said for Turkey as well.<sup>31</sup> Turkish support for Azeri cause and the blockade of Armenia<sup>32</sup> has also hampered Turkish mediation efforts for the conflict.<sup>33</sup> While Russia and Turkey initially have not been effective in brokering a solution to the conflict, the mediation efforts have

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<sup>30</sup> "On the night of February 25–26, 1992, the gruesome statistics indicate that 613 people had been killed, of which 106 were women and 83 were children; 1275 taken hostage, 150 went missing; 487 people became disabled and invalid, 76 of whom are teenage boys and girls; 8 families had been completely destroyed; 25 children had lost both of their parents, 130 children had lost one of their parents; and 56 people had been killed with extreme cruelty and torture. Sharing the fate of its population, the town of Khojaly had been completely destroyed as well." Khojaly Massacre Commemoration Site, Available [Online] : <<http://www.come.to/khojaly>>

[11 September 2006].

<sup>31</sup> Although Russia tried to avoid a direct involvement in the conflicts in the Caucasus region, the Russian support for Armenia in the Nagorno-Karabakh conflict has been quite visible. Thomas De Wall says that Russian soldiers actively participated in the war on the Armenian side. De Wall, *Black Garden, Armenia and Azerbaijan through Peace and War*, 170.

<sup>32</sup> The idea was put forth by the President of Turkish Republic Turgut Ozal in an interview given to British Financial Times. *Ayin Tarihi*, 7 March 1992.

<sup>33</sup> Turkey tried to bring the United States into the scene and Turkish Prime minister Suleyman Demirel called President Bush to get the United States involved in the resolution of the conflict. Cornell, *Small Nations and Great Powers*, 109.



been taken up by the CSCE (Conference on Security and Cooperation in Europe).<sup>34</sup> United Nations for its part could not actively involve in the peace process other than passing several resolutions for the cessation of hostilities.<sup>35</sup> In fact the UN was already burdened with other peace keeping activities in other parts of the world; therefore delegated the issue to the CSCE.<sup>36</sup> In March 1991, the CSCE established a group to handle the peace efforts for NK conflict.<sup>37</sup> The eleven member community planned an eventual peace conference to be held in Minsk and therefore named after this conference and became known as Minsk Group. Minsk Group assumed the role of establishing peace in the Nagorno-Karabakh conflict. CSCE as an organization was in a phase of transition at that time just after the dissolution of the Soviet Empire. In the wake of a unipolar world, CSCE was also looking for a new role as a security organization in the new world. Conflict resolution, however, was new to CSCE and the structure of the organization was weak. Each member had equal vote in the decision making process.

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<sup>34</sup> Later changed to OSCE.

<sup>35</sup> 1993 UN Security Council Resolutions on Nagorno-Karabakh RESOLUTION 822 (1993)

Adopted by the Security Council at its 3205th meeting, on 30 April 1993

Concerning the Nagorno-Karabakh conflict, Expressing its serious concern at the deterioration of the relations between the Republic of Armenia and the Republic of Azerbaijan, Noting with alarm the escalation in armed hostilities and, in particular, the latest invasion of the Kelbadjar district of the Republic of Azerbaijan by local Armenian forces, Concerned that this situation endangers peace and security in the region, Expressing grave concern at the displacement of a large number of civilians and the humanitarian emergency in the region, in particular in the Kelbadjar district, Reaffirming the respect for sovereignty and territorial integrity of all States in the region... Expressing its support for the peace process being pursued within the framework of the Conference on Security and Cooperation in Europe and deeply concerned at the disruptive effect that the escalation in armed hostilities can have on that process, Demands the immediate cessation of all hostilities and hostile acts with a view to establishing a durable cease-fire, as well as immediate withdrawal of all occupying forces from the Kelbadjar district and other recently occupied areas of Azerbaijan... Extracted from the website of U.S. Department of State, "1993 UN Security Council Resolutions on Nagorno-Karabakh," Available [Online]:

<<http://www.state.gov/p/eur/rls/or/13508.htm>> [16 April 2006]. UN also issued the following resolution in the same line asking for the cessation of hostilities: Resolution 853 (29 July 1993), 874 (14 October 1993) and 884 (12 November 1993).

<sup>36</sup> For detailed analysis of OSCE's and UN's activities and peace efforts in Caucasus, see Oliver Paye and Eric Remacle, "UN and CSCE Policies in Transcaucasia," in *Contested Borders in the Caucasus*, ed. Bruno Coppieters (Pleinlaan Brussels: VUB University Press, 1996), 103–137.

<sup>37</sup> The Minsk Group is headed by a Co-Chairmanship of France, the Russian Federation and the United States. The Minsk Group includes the following participating states: Belarus, Germany, Italy, Portugal, Netherlands, Sweden, Finland, Turkey, Armenia and Azerbaijan.

Apart from the structural weaknesses, the CSCE did not have an enforcing mechanism. The function of the Minsk Group therefore was reduced to mediation and bringing the parties to conflict to table.<sup>38</sup> CSCE has spent tremendous effort in bringing a ceasefire in the region, despite the fact that it suffered from organizational restraints and from the policies of the members. Especially the Russian proposal under CSCE undermined the efforts of Minsk Group. Russia in 1993 demanded to deploy only Russian peacekeeping forces in the region under CSCE mandate; however this was not accepted by the member states. The United States and Turkey particularly objected to the Russian proposal. Under all these demands, Russia still wanted to maintain a special sphere of influence in the region. On the other hand, despite the efforts of CSCE members and Minsk Group, the warring parties did not feel the need to listen to what CSCE members asked for.<sup>39</sup> Despite numerous temporary ceasefires, the Armenians engaged in new attacks on Azeri territory. Beyond all these was the fact that none of the parties to the conflict really wanted a ceasefire. They have moved forward with aggression whenever they saw a window of opportunity. The ceasefires and negotiations have been utilized as a time for regrouping and consolidating their bases. One thing that explains this type of behavior is

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<sup>38</sup> The Personal Representative's mandate from the Chairman-in-Office is to:

- Represent the OSCE Chairman-in-Office in issues related to the Nagorno-Karabakh conflict, assist the CiO in achieving an agreement on the cessation of the armed conflict and in creating conditions for the deployment of an OSCE peace-keeping operation, in order to facilitate a lasting comprehensive political settlement of the conflict in all its aspects...
- Assist the parties in implementing and developing confidence-building, humanitarian and other measures facilitating the peace process, in particular by encouraging direct contacts; co-operate, as appropriate, with representatives of the United Nations and other international organizations operating in the area of conflict.

(Extracted from official OSCE Website, The Organization for Security and Co-operation in Europe (OSCE), "CiO Representative on Minsk Conference," Available [Online]:

<<http://www.osce.org/item/13668.html>>

[21 August 2006].

<sup>39</sup> Recalling the previous disregard for OSCE and UN demand for the cessation of hostilities and respecting human rights and other issues pertinent to warfare, The NK Armenians and Azeris have seen no compelling reason for complying with International Institutions.

the lack of an enforcing mechanism. Beside these shortcomings, Russian initiatives in the region further undermined CSCE's role as a mediator.

First of all, Russia did not want the Minsk Group to be successful in mediation efforts which would decrease Russia's role in the region. Therefore, in many occasions Russia tried to bring the Armenians and Azeris together for a final ceasefire agreement. As it became clear that parallel efforts did not quite produce positive outcomes, in 1994 the OSCE had to accommodate Russia in its peace efforts and Russia was made the permanent co-chairman of the Minsk Group.<sup>40</sup> With the signing of the ceasefire agreement brokered by Russia in May 1994, the conflict between Armenia and Azerbaijan has been put in a frozen state. This agreement in fact did not provide a final solution to the disagreements between warring parties but only provided a temporary ceasefire. The attempts at finding a permanent solution acceptable to both parties continued under OSCE's umbrella in the following years after 1994.

However the ceasefire gave the NK Armenians a good chance for consolidating its position as an entity closely imbedded in Armenia as an independent unit. Each year passing without a final agreement on the status of Nagorno-Karabakh, the current *status quo* is being further consolidated.<sup>41</sup> The following years after 1994, the OSCE tried to resolve the main issues of disagreement between the conflicting parties. However the efforts produced no promising results. First of all, the Armenians are insisting on their right for self-determination and Azerbaijan is considering the territorial integrity as a

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<sup>40</sup> Kenneth Weisbrode, *Central Eurasia: Prize or Quicksand?: Contending Views of Instability in Karabakh, Ferghana and Afghanistan* (Oxford, New York: Oxford University Press for the International Institute for Strategic Studies, 2001), 31.

<sup>41</sup> Herzig, *The New Caucasus*, 68.

precondition for settlement. The return of the occupied territories and the repatriation of the forced refugees remain as difficult issues for future negotiations.

The main dilemma lies in the bringing of the concept of self-determination and territorial integrity together. None of the states want to make a sacrifice on their priorities. On the other hand, the leaders of the two nations are under great pressure from their people on any kind of compromise. Any compromise in these issues is equated with being defeatist or being treacherous.<sup>42</sup> Despite the fact that under OSCE's umbrella the parties had engaged in diplomatic negotiations<sup>43</sup> during 1996–98, the irreconcilable policies of Nagorno-Karabakh Armenians and insistence of Azerbaijan on the preservation of Azerbaijan's territorial integrity precluded the achievement of a final resolution.<sup>44</sup>

Under current conditions NK Armenians insist on the resolution of the status of the Nagorno-Karabakh as a precondition for the return of the occupied territories. Beside these, the NK Armenians insists on maintaining a territorial link to Armenia as a corridor that complicates the Azeri demand for the return of the occupied territories and Lachin corridor.<sup>45</sup> As long as the Azeris prioritizes the territorial integrity and the Armenians insist on their right to self-determination a final resolution that could bring a permanent

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<sup>42</sup> Armenian president Ter-Petrosyan inclined towards some of the proposals made by Minsk group and appeared to be a soft-liner. His policies regarding Nagorno-Karabakh created internal political crises which he eventually had to resign. This has given a strong message to the leaders of both countries that the Azeri and Armenian people are not ready to make compromises.

<sup>43</sup> Many proposals have been laid by Minsk group including the one that proposed phased negotiations which offers the negotiation of the issues separately. This was rejected by NK Armenians on the ground that they do not want to settle any issue as long as the issue of status of the Republic is not resolved.

<sup>44</sup> Ali Massoud Ansari, "The Military Balance in the Caspian Region," in *The Caspian Region at a Crossroad: Challenges of a New Frontier of Energy and Development*, ed. Hooshang Amirahmadi (Palgrave Macmillan, 2000), 214.

<sup>45</sup> A Karabakh official said that "we will never be an enclave again." Cornell, *Small Nations and Great Powers*, 123.

peace does not seem to be likely.<sup>46</sup> The status quo is likely to continue as long as the current balance of power is preserved. Although no one is satisfied with the *status quo*, each side fears that a compromise might put the adversary in an advantageous position which may lead to shift in the balance of power against them. Fear of survival is a major issue that impedes cooperation.<sup>47</sup> This is apparent in the case of Azerbaijan and Armenia. The immensity of mistrust among the two rivals is one of the main causes of the failure of the mediation attempts. Armenians maintain the idea that Armenians historically have been persecuted by Ottoman Turks and Azeris as well during the events in Sumgait and Baku in 1988.<sup>48</sup> This line of thinking has motivated the Armenians of Nagorno-Karabakh to establish a buffer zone in their military campaign against Azerbaijan. In return, Armenian drive toward Azeri territories has caused great anger and distrust among Azeris and strengthened the negative image of Armenians as a savage people.<sup>49</sup> Azeris very much rely on the revenues that they expect to get from oil development in the Caspian region in the coming years. Many people indicate that this might reverse the current balance between Azeris and Armenians in favor of Azerbaijan economically and militarily.<sup>50</sup>

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<sup>46</sup> The bilateral meetings under the auspices of OSCE continued up to our day. *Zaman Gazetesi* reports that the parties to conflict met in Paris and discussed the issues face to face. Although this summit have not produced a tangible progress, French Prime Minister Chirac, said that they were hopeful about the future of Azeri-Armenian talks. *Zaman Gazetesi*, 11 February 2006.

<sup>47</sup> Joseph M. Grieco, "Anarchy and the Limits of Cooperation: A Realist Critique of the Newest Liberal Institutionalism," in *Controversies in International Theories: Realism and the Neoliberal Challenge*, ed. Charles W. Kegley, Jr. (New York: The Macmillan Press Ltd., 1995), 152.

<sup>48</sup> The Turkish Azeri alliance rejects the Armenian claims on the ground that Armenian claims lack acceptable evidence but merely remains as a propaganda.

<sup>49</sup> Christian Tolstrup, "The Collapse of Dialogue," in *Contrasts and Solutions in the Caucasus*, ed. Ole Høiris and Sefa Martin Yürükel (Aarhus, Oakville, CT: Aarhus Univ. Press, 1998), 236–45.

<sup>50</sup> Ansari, "The Military Balance in the Caspian Region," 219–21; Mevlut Katik, "Militarisation of the Caspian Sea," in *The Caspian: Politics, Energy and Security*, ed. Shirin Akiner (London: RoutledgeCurzon-Taylor Francis Group, 2004), 302–303; Malysheva, "The Conflict in Nagorno-Karabakh," 275–77. See also "President Aliyev: Azerbaijan Never to Agree to Nagorno-Karabakh Separation," *Interfax T14:49:16Z*, 31 July 2006.

## THE CHECHEN CONFLICT

Another conflict in the region that had an impact on the stability of the region for investment and economic activities and on the development of oil industry in the Caspian region is the Russian-Chechen conflict that has caused a great level of devastation in Chechnya and proved to be the most destructive war in the territory of the former Soviet Union. Although the conflict took place within the borders of the Russian Federation, the Chechen conflict had a great potential to spread to neighbor states. The intensity of the violence and the rate of human suffering turned the world's attention to the Chechen conflict.

Although the roots of the conflict between Russia and Chechnya goes back to early times in history, we will be looking at the most recent developments that has started just after the end of the Soviet Empire. As in the other former soviet Republics, the end of the Soviet Union sparked a wave of independence movements in Chechen Republic as well. The events that led to the faithful confrontation between Russia and Chechnya started when the National Guard of Chechnya captured the Supreme Soviet headquarters in Groznyy in September 1991. The following events in the capital culminated in the election of Johar Dudayev as the President of Chechen Republic.<sup>51</sup> Dudayev came to power On 27 October of the same year with an overwhelming majority (90 percent). Under Dudayev's leadership Chechnya declared its independence from the Soviet Union on November 22, 1991. The Soviet administration responded with a declaration of state of emergency in Chechnya and also threatened the parliament with use of military to bring the Chechen state under Soviet control.<sup>52</sup> Unsuccessful military move towards

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<sup>51</sup> The first president of the Chechen Republic of Ichkeria (Chechnya), in the North Caucasus.

<sup>52</sup> Later the deceleration of state of emergency was annulled by Supreme Soviet of Russian Federation.

Chechnya was pushed back by Dudayev's National Guard and this has strengthened Dudayev's government in Chechnya.<sup>53</sup> Although Dudayev was an experienced army leader, he did not have any background in economy and in other social matters. With the stoppage of economic aid from Soviet Union and the leaving of the Russian elite from Chechnya, the internal situation in the country degenerated into a chaotic situation.<sup>54</sup> The coming years did not bring a desired level of stability in the region. Internal power struggle continued as the economy and social life worsened in Chechnya. During the years of 1992–94, Russia tried to bring Dudayev's regime down through different tactics which none of them had actually produced any positive results for Russia. Other than the threat to use of force, Russian administration supported other opposition groups in Chechnya. "As the initial attempts failed, Russia increased its role in the secret operations and began to deploy Russian servicemen and mercenaries and supply heavy equipment to the opposition force in an effort to shift the balance in Republic. Altogether five covert operations against Dudayev's regime were orchestrated by the Federal Counter Intelligence Service. The battle for Grozny was the unintended consequence of one such operation."<sup>55</sup>

One of the things that prevented productive talks and negotiation between Russia and Chechnya was the personal animosity between Russian president Boris Yeltsin and Johar Dudayev.<sup>56</sup> The use of insulting language in many occasions prevented the start of

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<sup>53</sup> The National Guard was comprised of irregular personnel and the prisoners.

<sup>54</sup> "A deteriorating economy, a standard of living; collapsing state services, massive corruption and crippling 'mafiaisation' of large political, economic and social sectors, an influx of Chechens from other parts of the FSU and emigration of Russians; political power struggle to shape the new regime; the climax of which was the confrontation between the parliament and president." Moshe Gammer, *The Lone Wolf and the Bear: Three Centuries of Chechen Defiance of Russian Rule* (Pittsburg: University of Pittsburg Press, 2006), 205.

<sup>55</sup> Quoted in Gammer, *The Lone Wolf and the Bear*, 2006.

<sup>56</sup> See Richard Sakwa, ed., *Chechnya: From Past to Future* (London: Anthem Press, 2005).

peace talks between two leaders. This may have forced Russian administration to resort to extreme violence in Chechen issue. Dudayev's posture as a strict leader and lack of experience in diplomacy and politics alienated Russia and damaged the countries' hope for a peaceful transition.

The state of unrest in Russia just after the break up of the Union and the confusion that accompanied the dissolution prevented a firm and clear cut Russian approach to the Chechen issue. During the years of 1992–94, Russia itself was in a phase of transition from communist regime and looking for a new definition of Russia in the post-Soviet world. The state of confusion and internal crises prevented Russia from approaching to Chechen issue in a steady way. Three years after Chechen declaration of independence, Russia decided to take control. Traditionally Russia assigned a strategic importance to Chechnya as a buffer zone and also because of the fact that Chechnya is located on the way to Caucasia. Losing control of Chechnya might very well have been resulted in the worsening of the conditions for Russia over the control of transcaucasia. It has also been said that Chechnya's independence may set an example to other republics under Russian control which eventually may further shrink Russian Federation. Having already lost a number of former dominions, Russia could not let any other go out of its hand. As Peter Shearman and Matthew Sussex suggest, "Chechen rebels have prompted fears of conflict spillover to the neighboring republic of Dagestan, and possibility of new independence claims from republics in the economically vital South Caucasus. The loss of Chechnya would also seriously dent Russian prestige at a time when policy makers have come to regard maintaining the trappings of great power status as a vital Russian interest."<sup>57</sup>

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<sup>57</sup> Peter Shearman and Matthew Sussex, "Globalization, New Wars and the War in Chechnya," in Richard Sakwa, ed., *Chechnya: From Past to Future* (London: Anthem Press, 2005), 203.



Other than the factors stated above, Chechnya is located on a very strategic geographic location for the transportation of Caspian oil to the Black Sea port of Novorossiysk. For Russia to remain as an influential actor in the Caspian Sea oil development, the northern route that goes through Chechnya had to be under Russian control. It is interesting here to note that, the major Russian offensive on Chechnya came after three years of Chechen declaration of independence which also coincides with the signing of the contract of the century by Azerbaijan in 1994.<sup>58</sup> Svante E. Cornell argues that “a direct reason for the war to erupt suddenly in the end of 1994 might have been the signing in autumn of 1994 of the Baku oil consortium, heavily contested by Russia, whereby the Azerbaijani state signed an agreement with Western oil companies on extracting large quantities of oil from the Caspian Sea shelf.”<sup>59</sup> If Russia were to impose the northern route for the transportation of Caspian oil towards the Russian port of Novorossiysk at Black Sea, it was imperative for Russia to be in full control of the pipelines including Chechnya. Chechen conflict stood in the way of Russian control of its neighborhood as a big trouble spot that needed to be removed for further Russian control of the region.

For whatever the reasons, the Russian invasion of Chechnya started on 11 December 1994. Despite the optimistic expectations, the war turned out to be disastrous for both Russia and Chechnya. First, the Russian army has been stopped by Chechen militias on many occasions. Only after the use of heavy artillery and the destruction of capital Grozny could the Russians enter the city. Russians have been harassed by small

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<sup>58</sup> For more on the Caspian oil as an important motive for Russian offensive on Chechnya, see Andrew Towner, “The Russians, Chechens and the Black Gold: A Geo-Economic Explanation for the Chechen War,” in *The Politics of Caspian Oil*, ed. Bülent Gökalp (Basingstoke: Palgrave, 2001), 199–215.

<sup>59</sup> Cornell, *Small Nations and Great Powers*, 223.

groups of Chechen fighters and gave heavy casualties. Still, Chechen people suffered the most out of this war as it has caused the death of 45,000–60,000 people in three years. The level of atrocities committed by Russian army and the killing of civilians to root out Chechen resistance alarmed international community. After the killing of the Chechen leader Johar Dudayev in 1996 by an attempted strike at his life, Russians gradually took control of the Capital through establishing friendly government. Despite the continuation of fighting and skirmishes, both parties signed the Khasav Yurt Agreement on 31 August 1996 and Moscow Peace Accord on 12 May 1997.<sup>60</sup> Both sides has agreed to a ceasefire and the status of the Chechen Republic left to future negotiations; expected to be concluded within five years by 2001.

The years between 1997 and 1999 left Chechnya in a complete chaotic environment. The rise of crime and terrorism crippled a functional social life. Apart from the apparent consequences of the war, the Russian offensive increased the Islamization of the Chechen people.<sup>61</sup> While people fought for their country during the 1994–96 war, now most of the Chechens turned towards religion and started fighting for their religion. Nevertheless, the lawlessness in Chechnya and the attack on Dagestan spurred a new wave of Russian offensive coupled with Russian anger towards terrorist activities directed against Russian civilians.<sup>62</sup> Despite the official rhetoric to suppress terrorist

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<sup>60</sup> A ceasefire agreement that marked the end of the First Chechen War was signed in Khasav-Yurt on August 31, 1996 between Alexander Lebed and Aslan Maskhadov. The agreement was broken after the Raid on Dagestan and Russian Apartment Bombings followed by the Second Chechen War. Moscow Accord was signed by Russian President Boris Yeltsin and Maskhadov and mainly focused on peace and the principles of bilateral relations.

<sup>61</sup> Anna Zelkina, "The Wahhabi's of the Northern Caucasus vis-à-vis State and Society: The Case of Daghestan," in *The Caspian Region Vol II: The Caucasus*, ed. Moshe Gammer (London: Routledge, 2004).

<sup>62</sup> The Russian people did not fully support the war in Chechnya before the start of terrorist activities in Russia but after the attacks on civilian targets the support for Russian military operations increased. See Mike Bowker, "Western Views of the Chechen Conflict" in Richard Sakwa, ed., *Chechnya: From Past to Future* (London: Anthem Press, 2005), 223–38.

activities and eliminate their establishments in Chechnya, a vast majority of Western media reported the Russian offensive as a political move by Vladimir Putin to consolidate his place as a candidate for Russian presidency after Yeltsin. The brutality of Russian military again surfaced in this attacks and gross human right violations and war crimes criticized by Western states.<sup>63</sup>

The war left Chechnya in ruins resembling villages after World War II. The new governments after Russian invasion had no real hope about the reconstruction of the cities destroyed by Russian attacks. Out of a million people in the whole republic a 300–400 thousand people became refugees.<sup>64</sup> The impact of the war was also felt on the Russian side as their losses totaled up to 25,000 deaths of varieties of servicemen. The stability in the region was very much shaken by the Chechen conflict in the region. It has also caused Russia a reputation as the Russian army had to fall back against Chechen pressure in capturing the capital. This might explain the brutality of Russian forces to conquer the Chechen territory to save face at both home and at the international level.

### *Normalization*

Under heavy pressure from Western world and the United States, the Russian administration has made certain efforts to normalize the internal political situation in Chechnya. In a referendum in 2003 a new constitution was accepted by Chechen people.<sup>65</sup> The constitution gives Chechnya a wide autonomy but the Republic remains an integral part of the Russian Federation.

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<sup>63</sup> Ibid., 232.

<sup>64</sup> For more information on the casualties of Chechen War, see Shearman and Sussex, "Globalization, New Wars and the War in Chechnya," 203, 201–206 and Cornell, *Small Nations and Great Powers*, 220–38.

<sup>65</sup> 96 percent of the Chechen people approved of the new constitution.

## ETHNIC CONFLICTS IN GEORGIA AND THE STABILITY IN CAUCASUS

Another trouble spot in the post-Soviet World was Georgia which has been hit worst by internal conflicts. Georgia is located on the transit routes of Caspian oil. Major oil pipelines proposed to be built passes through the territories of Georgia. Therefore, instability in the region directly affects the oil development projects and the transportation of Caspian oil. Georgia has experienced three major struggles starting with 1988 to 1993. Georgia has fought two bloody ethnic wars and torn with internal power struggle after the end of the Soviet Union. One of the main reasons for the rise of ethnic strife in Georgia is related to the old Russian divide and rule system. As we have indicated in the previous sections, the Caucasus region has a highly complex ethnic structure with numerous ethnic groups spread across the territories of many nationalities. The Soviet system allowed the allocation of ethnicities under the rule of Caucasian states. In Georgia, the Abkhaz and the Ossets are the largest group of ethnic minorities. The Soviets established Abkhazia as an *autonomous republic* under Georgia while South Ossetia was made a *region* under Georgian rule. As it stands from this hierarchical structure, the Soviets stands at the top of the political pyramid, where Georgia follows the ladder of hierarchy after Soviets and then the *autonomous republics* and *regions* take their place.

The general impact of Gorbachev's *perestroika* was also felt hard in Georgia where the autonomous republic of Abkhazia and autonomous region of South Ossetia moved for either independence or unification with North Ossetia under Soviet Union, breaking away from Georgian rule. The early stages of the Abkhaz and Osset movement was met by rejection by the Georgian authorities and mainly remained at the level of

verbal confrontation through decreeing political statements and laws. However, as the Georgian nationality started to rise in Georgia, the other ethnicities followed suit. The heavy rhetoric of the Georgian National Movement alerted the ethnicities in Abkhazia and South Ossetia forcing them to introduce countermeasures against rising Georgian nationalism.<sup>66</sup>

### *Abkhazia*

On the border of Russia Abkhazia is located on a strategic gateway to Russia.<sup>67</sup> A total of half a million population, Abkhazia enjoyed a high level of standards compared to the rest of the country. The rich mineral resources and tourist sites and their relationship with Russia advantaged Abkhazians over the other nationalities in Georgia. Despite the fact that the Abkhazia constituted an average 18 percent of the Abkhazian territory<sup>68</sup> they dominated the economic and political life mainly because of their close relationship with the Soviet Union and constant demand for cessation from Georgia.<sup>69</sup> Soviet leadership increased their share each time they demanded unification with Soviet Union as an autonomous republic.<sup>70</sup>

This has actually caused grievances on the other side where Georgians constituted the majority of the population (45 percent) but were treated like a small minority. And

<sup>66</sup> Monica Duffy Toft, "Two-Way Mirror Nationalism: The Case of Ajaria," in *The Caspian Region Vol II: The Caucasus*, ed. Moshe Gammer (London: Routledge, 2004).

<sup>67</sup> The Republic of Abkhazia covers 3,300 square miles between the eastern shores of the Black Sea and the crest line of the main Caucasus range; from the rivers Psou (in the North) and Ingur (In the south). To the north, Abkhazia is bordered by Russia and to the south by the Georgian provinces of Svanetia and Mingrelia. Around 74 percent of the territory is mountains or mountain approaches.

<sup>68</sup> Total population of Abkhazia was around half a million during 1990s of which only 93,000 of them were Abkhaz. Georgians constituted 45 percent of the population while Armenians and Azeris accounted for the 30 percent of the Republic. Herzig, *The New Caucasus*, 76.

<sup>69</sup> Bruno Coppieters and Robert Legvold, eds., *Statehood and Security: Georgia after the Rose Revolution* (Cambridge, MA: American Academy of Arts and Sciences: MIT Press, 2005), 88.

<sup>70</sup> Moscow allocated two third of party and government positions within the Republic to them, though they accounted for only about one sixth of its population. Herzig, *The New Caucasus*, 77.

yet, the Abkhazian administration constantly complained about the movement of Georgian nationalities to Abkhazia to reduce the proportion of Abkhazian population. In March 1990, the Georgian state declared independence from Soviet Union that initiated a serious of political and military confrontation within the country.

Following the Georgian declaration of independence, the Abkhaz Supreme Soviet unilaterally declared itself as a sovereign republic and asked for Moscow to be integrated into the Soviet Union as a Union Republic. Although the Georgian authorities declared this step invalid at that time, due to the internal situation, Georgian response to Abkhazia remained at political level.<sup>71</sup> After two years of internal political struggle, Georgian authorities managed to bring the ends together. Only after that the Georgian government took the issue at hand seriously to find a solution. With Shevardnadze strengthening his position in the capital, the nature of the conflict between Abkhazia and Georgia started to change.<sup>72</sup> In August 1991, the Georgian National Guard moved onto the Abkhaz capital. One of the events that ignited the start of a military conflict is the kidnapping of two Georgian high level politicians by the Gamsakhurdia troops to a town in Abkhazia. The war broke out between the Georgian and the Abkhaz military units and the national guard of Georgia entered the capital of Abkhazia and plundered the city. Despite the fact that the Georgian army had the upper hand at the beginning, the tide of the war shifted as the

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<sup>71</sup> The only measure taken by Gamsakhurdia administration was a power sharing agreement with Abkhazians. According to that agreement, "electoral districts would be demarcated according to ethnic lines effectively giving each group a quota of seats in the new 65-seat Abkhazian parliament. Thus the Georgian population representing (45.7 percent of the population of Abkhazia in 1989) would receive 26 seats, the Abkhazians (representing 17.8 percent) would receive 28 seats, while the other groups (primarily Armenians [14.6 percent] and Russians [14.3 percent] would receive the remaining 11 seats)." Coppieters and Legvold, *Statehood and Security*, 95.

<sup>72</sup> O'Ballance, *Wars in the Caucasus, 1990–1995*, 112–132.

Abkhaz army started receiving reinforcements from the Northern Caucasus region.<sup>73</sup>

With the involvement of Russia on the side of Abkhazia, the Georgians had to pull back with a humiliating defeat. The war ended in 1993 with Abkhaz victory. Georgia and Abkhazia signed a ceasefire agreement in September 1993 leaving the status of the Republic to future negotiations. With an agreement signed in 1994, Russian peacekeeping forces were deployed on the borders to prevent further escalation of violence. The war had devastating effects for both Abkhazia and Georgia apart from the casualties reported to be around 4–8 thousand. The war especially damaged the Abkhaz economy that very much depended on the stability of the region. The war also created further problems for both parties on the settlement of the issue of the repatriation of a 200,000–250,000 Georgian in Abkhazia who had to flee their homes in fear of violence and harassment after the Georgian attack on Abkhaz capital.<sup>74</sup>

The ceasefire agreement has been brokered by Russia in return for Georgia's acceptance to join in the CIS. In fact the rejection of Georgian government to join in the CIS has proved to be deadly for Georgia, since Russia in both the Abkhaz and the Osset conflict actively supported the irredentist movements. The Shevardnadze government had to bow to the Russian pressure to join in the CIS which eventually made it possible for Georgians to reach to a ceasefire agreement with Abkhazia and South Ossetia.

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<sup>73</sup> "The North Caucasus (sometimes referred to as Ciscaucasia or Ciscaucasus) is the northern part of the Caucasus region between Europe and Asia. The term is also used as a synonym for the North Caucasus Economical Region of Russia. Politically, the Northern Caucasus (territory north of the Greater Caucasus Range) includes the Russian Republics of the North Caucasus as well as several regions of Georgia and Azerbaijan. As part of the Russian Federation, the Northern Caucasus Region is included in the Southern Federal District and consists of Krasnodar Krai, Stavropol Krai and the autonomous republics: Karachay-Cherkessia, Kabardino-Balkaria, Adygea, North Ossetia, Ingushetia, Chechnya, and Dagestan. In Georgia, the North Caucasus includes the regions of Tusheti, Khevsureti, and Khevi." "North Caucasus," Available [Online]: <[http://en.wikipedia.org/wiki/Northern\\_Caucasus](http://en.wikipedia.org/wiki/Northern_Caucasus)> [12 September 2006].

<sup>74</sup> Konstantin Ozgan, "Abkhazia—Problems and the Paths to their Resolution," in *Contrasts and Solutions in the Caucasus*, ed. Ole Høiris and Sefa Martin Yürükel (Aarhus, Oakville, CT: Aarhus Univ. Press, 1998), 196.

United Nations involved in the peace process and supported Russian mediation and deployment of peacekeeping forces in May 1994.<sup>75</sup> Although the military conflict ended between Abkhazia and Georgia, the main issue of the status of the Abkhaz Republic remains unresolved alongside with the return of a 200–250,000 Georgian refugees settled in Tbilisi. The refugee problem has been one of the most serious problems that placed a pressure on the Georgian governments as the Abkhazians are not in favor of allowing a huge number of Georgians in Abkhazia in fear of returning to be a small minority in their own territory.

### *South Ossetia*

The conflict between South Ossetia and Georgia dates back to the times when South Ossetia was made an autonomous region under Georgia by the Soviet Administration in Moscow.<sup>76</sup> Ossets considered this as a part of a Russian strategy of divide and rule which separated the South Ossetians from the North Ossetians.<sup>77</sup> As it is the case with Abkhaz people, the South Osset administration wanted to take advantage of loosing Soviet grip on the republics and petitioned for unification with North Ossetia as

<sup>75</sup> 2500 Russian PKF deployed along with a 150 UN observers patrolling security zone. See *ibid.*, 192.

<sup>76</sup> As of 1989, the autonomous oblast of South Ossetia within Georgia had a population of nearly 100,000, of whom 66.2 percent were Ossetes and 29 percent Georgians. Along with them in South Ossetia reside Russians, Georgians, Armenians, Greeks—a total of 40 nationalities. Half of the families in the region were of mixed Georgian-Ossetian descent. The Ossetes are descendants of the ancient Alan tribes of Iranian stock. Some of them are Orthodox Christians and some (in certain regions of North Ossetia) are Muslims. “South Ossetia,” Available [Online]: <[http://www.policy.hu/~gomelauri/south\\_ossetia.html](http://www.policy.hu/~gomelauri/south_ossetia.html)> [12 September 2006].

<sup>77</sup> North Ossetia-Alania is one of the sovereign republics of Russian Federation. It is situated on the northern slopes of the central Caucasus between two of the highest mountain peaks in Europe, Elbrous (5613m) and Kazbeck (5047m). North Ossetia-Alania is one of the smallest, most densely populated and multi-cultural republics in Russian Federation. The findings of the last census of 1989 show that the population of 646,000 inhabitants represents about 100 nationalities living on an area of 8,000 sq.km. (81 people to every sq.km.). Vladikavkaz is the capital of North Ossetia-Alania. “The Republic of North Ossetia,” Available [Online]: <<http://www.friends-partners.org/oldfriends/ossetia/index.html>> [21 August 2006].



an autonomous republic in 1990. In 1992 South Ossetia held a referendum and with a 99 percent of support from its people; the South Osset administration demanded unification with North Ossetia under Russian Federation as an autonomous republic. The Osset demands were rejected by the Georgians and occasional fighting broke out as early as 1990 and intensified in 1991 and 1992.

Georgia was caught between a series of ethnic troubles and internal power struggles at a time of transition from Soviet rule to a sovereign independent state. Especially the internal power struggle hampered Georgian efforts to deal with these issues effectively. After the removal of Gamsakhurdia regime in 1991 by a violent *coup d'état*, Edward Shevardnadze, an experienced and respected Georgian leader took control of the Georgian government.<sup>78</sup> It was up until 1995 that Shevardnadze had to deal with serious internal opposition which he skillfully eliminated one by one. Even after the removal of Gamsakhurdia, he continued to pose a threat to Tbilisi, as he organized military factions in exile. Caught in the middle, the Georgian government had to deal with these two sources of conflicts at the same time which left the country in political and economical turmoil. Coupled with Russian involvement, Georgia had hard times in resolving ethnic issues. In the case of South Ossetia, military confrontation took place in South Osset capital and elsewhere in the Osset territory between Osset militias and the Georgian army. As the Ossets received considerable support from North Ossetia and Russia, the Georgian army got defeated once again and had to agree on a ceasefire brokered by Russia. The agreement became possible after Georgia accepted Russian

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<sup>78</sup> For more on the details of the internal struggle and chaotic environment during Gamsakhurdia regime, see Ghia Nodia, "Political Turmoil in Georgia and the Ethnic Policies of Zviad Gamsakhurdia," in *Contested Borders in the Caucasus*, ed. Bruno Coppieters (Pleinlaan Brussels: VUB University Press, 1996), 73–91.

troops on Georgia and in South Ossetia. A joint coalition was established to manage the ceasefire and the Georgian, Russian and Osset peacekeeping forces.

The war between Georgia and South Ossetia resulted in the death of 500–600 people. Around 12,000 Georgians (out of approximately 30,000 living in South Ossetia) left the region in several waves between 1990 and 1992. At the same time, approximately 30,000 Ossets living in Georgia left for North Ossetia in response to Gamsakhurdia's nationalist outburst.<sup>79</sup>

In this crisis and ceasefire, international organizations did not play a considerable role other than an OSCE representative being present in the negotiations. The South Osset conflict ended in a more peaceful manner than other conflicts we have seen in Caucasus after the end of the cold war. With Russian involvement and OSCE's support the parties agreed to stop to use to threat to use military force in resolving the existing disagreements. A series of negotiations took place starting with 1992 towards 1996. However the talks between two sides have not produced outcome that is conducive to a permanent peace in the region. The issue of the status of South Ossetia remains to be an obstacle for a final resolution of the crises between two parties. As long as the issue remains unresolved, the Osset problem will continue to be a concern for instability for both Georgia and Caucasus. Torn between ethnic conflicts and internal power struggle, Georgia suffered badly in the phase of transition after independence.<sup>80</sup> The conflicts and human suffering in Georgia and in other parts of the Transcaucasus region created a zone

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<sup>79</sup> Coppieters and Legvold, *Statehood and Security*, 107.

<sup>80</sup> *Zaman Gazetesi* report that the internal conflicts in Georgia although at a smaller level still poses a threat to the stability of the region. *Zaman Gazetesi*, 19 March 2004.  
<http://www.zaman.com.tr/?bl=dishaberler&alt=&trh=20040319&hn=27908> (Accessed on March 19 2004)

of instability.<sup>81</sup> The extent of the wars and the damage inflicted on the economic and social lives of the people in the Transcaucasus area heavily affected the future prospects for prosperity and transition to democracy in the whole region.

Having examined the extent of the military conflicts and wars in Caucasus region, we may move onto the investigation of the impact of these wars on the interstate relationship and cooperation on the issue of oil development in the Caspian region.

#### MILITARY CONFLICTS IN THE CAUCASUS AND THE CASPIAN OIL DEVELOPMENT

The intensity and the extent of the violence in the region gathered international attention due to the spread of gross human right violations. Coupled with the geostrategic importance of the region for external powers and the existence of rich oil resources, transcaucasian region and the military conflicts in the former Soviet Union dominated the political agenda of major external powers alongside with international institutions. Despite the fact that powerful states in the region tried to play a role in the settlement of the disputes, the initiatives by these states and the international institutions did not produce a considerable positive outcome in terms of the achievement of a permanent peace in the region. Apart from the devastation of the cities and nation states, the wars in Transcaucasia region crippled the possibility of economic development considering the already existing difficulties that are accompanied with the transition from communist economic system to market economy. The states, directly or indirectly involved in the conflict, could not achieve a level of cooperation that would create an

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<sup>81</sup> For more information on the atrocities against civilians and ethnic groups in Georgia, see Denber, *Bloodshed in the Caucasus*.

environment for economic development through internal and external investments. In this part of the chapter, I would like to focus on the reasons behind the failure for cooperation for the settlement of armed conflicts and their direct or indirect impacts on the development of oil industry in the Caspian region.

## PEACE PROCESS IN CAUCASIA AND INTERNATIONAL INSTITUTIONS

As soon as the armed conflict started between Azerbaijan and Armenians of Nagorno-Karabakh, international institutions and regional actors offered their assistance. However, despite the long and persistent efforts of Minsk Group under OSCE, the peace process failed utterly. In fact OSCE was the only international organization in the region to provide any sort of mediation between conflicting parties.

The role of international institutions in preventing armed conflict is one of the issues that has been extensively discussed in international relations theory. Scholars of neoliberal thought asserted the usefulness of international organizations (IO) in the settlement of the disputes among states.<sup>82</sup> According to neoliberals, institutions can “provide information, reduce transaction costs, make commitment more credible, establish focal points for coordination and in general facilitate the operation of

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<sup>82</sup> The literature on the issue is huge and expanding as new studies add up. For more details on the neo-liberal perspective see Robert O. Keohane and Joseph S. Nye, *Power and Interdependence* (New York: Harper Collins, 1989); Oran R. Young, “International Regimes: Toward a New Theory of Institutions,” *World Politics* 39, no. 1 (October 1986); Oran R. Young “The Effectiveness of International Institutions: Hard Cases and Critical Variables,” in *Governance without Government*, ed. James M. Rosenau and Ernst-Otto Czempiel (Cambridge: Cambridge University Press, 1992); John Gerard Ruggie, “Continuity and Transformation in the World Polity: Toward a Neorealist Synthesis,” *World Politics* 35, no. 2 (January 1983); Alexander Wendt, “Constructing International Politics,” *International Security* 20, no. 1 (1995); Charles A. Kupchan and Clifford A. Kupchan “The Promise of Collective Security,” *International Security* 20, no. 1 (Summer 1995); John Gerard Ruggie, “The False Premise of Realism,” *International Security* 20, no. 1 (Summer 1995); Robert O. Keohane and Lisa Martin, “The Promise of Institutional Theory,” *International Security* 20, no. 1 (Summer 1995).

reciprocity.”<sup>83</sup> On the other hand, the neo-realist theory claims that IOs do not play a major role in international relations that the role of IOs in affecting the state behavior in international arena is limited. Neorealists focus on the role of state as an actor in an anarchic international system where each individual actor pursues their own interest.<sup>84</sup> According to the realists, cooperation among states is only possible if it is meaningful in terms of their national interests. Relative gain considerations jeopardize international cooperation. Additionally, fear of being cheated in cooperation drives states away from cooperation. It is because that, in absolute gain, states focus only on their gain but in real world states pursue relative gain that calculates its sheer gain on the basis of other’s gain and loss.<sup>85</sup> For realists, institutions reflect state calculations of self-interest based primarily on concerns about relative power; therefore Institutions do not have significant effects on state behavior.

In the case of Nagorno-Karabakh conflict and the other conflicts that have taken place in the region, the role of international institutions remained very limited. In terms of the explanatory power of the IR theories, neo-realist school of thought could be applied to the events that have taken place in the region. Policies of the states in conflict and also the external powers that were involved in the peace process could better be explained through neo-realist explanation of interstate interaction. First of all, despite the mediation efforts by IOs and the neighbor countries, the conflicting parties did not

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<sup>83</sup> Robert O. Keohane and Lisa L. Martin, “The Promise of Institutional Theory: Response to John J. Mearsheimer,” *Journal of International Security* 20, no. 1 (Summer 1995): 42.

<sup>84</sup> The literature on the issue is quite extensive. The following articles and books touches upon the realist/neo-realist perspectives on the issue stated above: John J. Mearsheimer, “The False Promise of International Institutions”; Lisa L. Martin and Beth A. Simmons, “Theories and Empirical Studies of International Organizations,” *International Organization* 52, no. 4 (1998); Randall L. Schweller and David Preiss, “A Tale of Two Realisms: Expanding the Institutions Debate,” *Mershon International Studies Review* 41, no. 1 (May 1997).

<sup>85</sup> For more on the realist views, see Morgenthau, *Politics among Nations*; Waltz, *Theory of International Politics*; and Keohane, ed., *Neorealism and its Critics*.

consider ending the armed conflict as a viable option. This is particularly related to the nature of the issue at stake. Armenians and other ethnicities considered their independence and sovereignty as an issue of utmost importance (high politics). As neo-realists would suggest the likelihood of regimes and international institutions to play an important role in high politics is very low.<sup>86</sup> In light of the rising nationalism on the host nations, the ethnicities deemed it an issue of life and death to protect their borders and identities. "Rivalries, such as those in Nagorno-Karabakh, are not disposed to local solutions because the rivals tend to view their security relations as a zero-sum game in which the perceived gain of one side is considered a loss for the other. In such cases there is little room for bargaining or negotiations between rivals, or among factions, within a group or state. The Karabakh Armenians and the Azerbaijanis see the very survival and legitimacy of their states at stake."<sup>87</sup> Under these circumstances and this line of thought, the conflicting parties did not pay much attention to the mediation efforts. As in the case of Nagorno-Karabakh and Azerbaijan, temporary cooperation on peace issues has been used to regroup their forces to launch fresh attacks on adversaries.

Another factor that contributed to the failure of interstate cooperation is the zero-sum thinking of the parties in conflict. A gain by one side is considered as a loss for other party.<sup>88</sup> P. Terrence Hopmann suggests that, "third parties can be especially helpful in directing negotiations away from a zero-sum conflict model toward a more problem

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<sup>86</sup> Mearsheimer suggests that "Liberal institutionalism is generally thought to be of limited utility in the security realm, because fear of cheating is considered a much greater obstacle to cooperation when military issues are at stake." Mearsheimer, "The False Promise of International Institutions."

<sup>87</sup> Wendy Betts, "Third Party Mediation: An Obstacle to Peace in Nagorno-Karabakh," *Sais Review* 19, no. 2 (1999): 167.

<sup>88</sup> "Armenia: Ex-Speaker Says Authorities Lack Political Will for Karabakh Settlement," *MEDIAMAX*, 12 May 2004. See also "Minister Says Nagorno-Karabakh Must Become Party to Peace Talks," *NOYAN TAPAN*, 6 May 2002, *FBIS-SOV—0510*, 2002.

solving orientation.”<sup>89</sup> Another factor that stalled the negotiations and rendered the efforts of OSCE’s Minsk Group is the deeply ingrained disputes between the Azeri and Armenian nationalists. The historical factors and current developments draw each party to extreme distrust and a dehumanization of enemy which eventually made it difficult to come to compromise despite the intense efforts spent by the members of Minsk Group. This again coincides with the neo-realist approach which suggests that states in international arena cannot trust adversaries and has to rely on their own resources for survival. The prevalent distrust and suspicion against adversaries in the regional conflicts may prolong the security dilemma and is already leading to arm procurement.<sup>90</sup> As Katik suggests, “the strengthening of naval forces and border troops would serve only to increase the insecurity of the each of the littoral states at this stage.”<sup>91</sup>

Most of the points stated above could also be applied to the conflicts in Georgia and Chechnya as well. The Abkhaz and South Osset conflicts developed in the same line with Azerbaijan and Armenia. Ethnic groups had to resort to military means under the perception that the Georgian pressure is directed at their very own survival as an entity. John Mearsheimer suggests that combatants are motivated by a security dilemma relating to power politics, prompting wars of territorial expansion.<sup>92</sup> The international institutions again proved to be useless in bringing a final solution to those conflicts considering the fact that the ceasefires that stopped these conflicts were brokered by Russia and yet no final solution has emerged. OSCE’s attempt can be categorized under different phases.

<sup>89</sup> Quoted in Betts, “Third Party Mediation,” 5, see also P. Terrence Hopmann, *The Negotiation Process and the Resolution of International Conflicts* (Columbia: University of South Carolina Press, 1998), 242.

<sup>90</sup> Security Dilemma exists when many of the means by which a state tries to increase its security decrease the security of others. Charles L. Glasier, “The Security Dilemma Revisited,” *World Politics* 50, no. 1 (1997): 171. For more details on Security Dilemma, see Jervis, “Cooperation under the Security Dilemma,” 167–214.

<sup>91</sup> Katik, “Militarisation of the Caspian Sea,” 308.

<sup>92</sup> John Mearsheimer, *The Tragedy of Great Power Politics* (New York: W.W. Norton, 2001).

The initial years of OSCE's involvement in the conflict was dominated by small countries of Europe with less interest in the region. The initial years also coincides with less Russian resistance within OSCE. As the Armenians continued to push towards Azerbaijani territories and captured many of the strategic cities, the concerns over the conflict increased especially when it became a threat to regional countries. In the second phase of the mediation efforts, OSCE has been strengthened by the support of the United States, France and Turkey. In 1993, Minsk Group proposed an agreement for ceasefire and asked Armenians to evacuate Kelbajar. The Nagorno-Karabakh Armenians rejected the proposal on the ground that controlling the Kelbajar area provides them a security and a lifeline to Armenia. The very next month they started a new series of attacks on Azerbaijan and the OSCE's proposal has been rejected. Despite the internal disturbances created by Russia within OSCE roof, the Minsk Group continued to work on the issue. A draft proposal was accepted by all the OSCE members including Azerbaijan in Lisbon Summit in December 1996. The document called for a settlement between Azerbaijan and Armenia based on Azerbaijan's territorial integrity and highest form of self-government for Nagorno-Karabakh and protection for Armenian people. Despite the unanimity of the OSCE members, Armenia vetoed the proposal on the ground that it does not accommodate Armenian needs and requests. After the inclusion of France and the United States in the administrative chambers of Minsk Group, in 1997 the three chairman of the Minsk Group proposed a phased settlement to the dispute. The proposal asked for the return of the occupied territories to Azerbaijan and settlement of the issue of refugees by allowing them to return their homes. These were expected to be followed by the lifting of the Turkish-Azeri blockade on Armenia and deployment of Peacekeeping



forces. The issue of the status of Nagorno-Karabakh was to be settled in the second stage. Azeris accepted the plan but the Nagorno-Karabakh Armenians again rejected the plan immediately on the ground that it does not provide Armenians sufficient guarantees. In the coming years, the OSCE members continued their efforts and tried to reach an acceptable settlement through direct negotiations starting with 1999. The presidents of Armenia and Azerbaijan met in Washington in 1999 but the meeting was not particularly productive in terms of improving the conditions. The same pattern of mediation efforts and bilateral talks continued up to our day without much improvement. The OSCE as an institution failed in attempts at bringing a final resolution to the conflict.

One of the main reasons behind the ineffectiveness of International Institutions is the defection of the major actor; namely Russia to involve in joint decision making. The unilateral initiatives of Russia raises the question about the effectiveness of IOs in conflict resolution and providing a cooperative environment. The attitude of Russia in NK peace process and ineffectiveness of OSCE and UN makes the neorealist claim more applicable in such circumstances; as Menzel puts it, "Contrary to the institutionalist desire that regimes makes a difference, neorealist criticism of regime is applicable: cooperation via regime is a matter of convenience easily cast away if unilateralism promises better results from the perspective of national interest"<sup>93</sup> The problem here is that, OSCE does not possess troops and military assets to deploy or to intervene in case of an emergency conflict. OSCE needs the facilities of NATO or WEU to engage in the crises.<sup>94</sup> But, taking into consideration of the decision-making procedures both in OSCE

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<sup>93</sup> Menzel, *Doomed to Cooperate*, 141.

<sup>94</sup> At June 1992, foreign ministers conferences in OSLO, NATO pledged to support on a case by case basis in accordance with its own procedures, peace keeping activities, under the responsibility of the OSCE, including by making available Alliances forces and expertise. Charles Krupnick, "Europe's

and in NATO, it becomes obvious that a decision to intervene militarily in a conflict is very difficult therefore makes OSCE useless and ineffective in providing an enforcement mechanism in the events of mediation.

Displacement of more than a million Azeri and Armenians forced the involvement of the regional countries of Iran and Turkey. Due to the precarious ethnic situation in Iran, Iran had to involve in the process to control the passage of the refugees and also to stop them on the border to prevent a complication in the Azeri populated Northern Iran.<sup>95</sup> Iran offered its assistance on several occasions to control the situation and the armed conflict. First, all of the countries involved in the process hoped to be in a leading position in the settlement of disputes which is expected to bring a some sort of a reputation in the region. This type of consideration and thinking created lots of problems in the peace process and mediation efforts. As each actor came up with its own proposal for the settlement of the issues, it created confusion for the parties in conflict. All of a sudden, they found themselves in a position to choose among the best offer and support certain proposals over others. "The intervention of mediators is legitimized by the goal of conflict reduction, which they typically proclaim. Their desire to mediate is, however, intertwined with other motives best described within the context of power politics ... mediators are players in the plot of relations around the conflict, with some interest in its outcome; otherwise they would not mediate."<sup>96</sup> The proposal brought up by Turkey, Iran and Russia reflected their own version of a solution that conflicted with each other. In

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Intergovernmental NGO: The OSCE in Europe's Emerging Security Structure," *European Security* 7, no. 2 (Summer 1998): 34.

<sup>95</sup> Abdollah Ramazanzadeh, "Iran's Role as Mediator in the Nagorno-Karabakh Crises," in *Contested Borders in the Caucasus*, ed. Bruno Coppeters (Pleinlaan Brussels: VUB University Press, 1996).

<sup>96</sup> Saadia Touval and I. William Zartman, "Mediation in International Conflicts," in *Mediation Research*, ed. Kenneth Kressel and Dean G. Pruitt (San Francisco: Jossey-Bass Publishers, 1989), 117.

other words, the conflict has been transferred to the mediators.<sup>97</sup> Nevertheless, the attempts made by these states carried the goal of achieving a solution brought by them as this would increase their status in the region. As we have indicated in the previous chapters, Russia, Turkey and Iran compete for influence in the region. That competition also took place in the mediation efforts; which resulted in confusion and delay and also limited their ability to act as a neutral agent in the process. “The existence of parallel mediation tracks led to the parties’ attempts to play one mediation off against the other, to shop around for more advantageous terms.”<sup>98</sup> Dina Malysheva argues that “attempts to normalize the situation in the South Caucasus by reaching a consensus on the principles of peaceful coexistence in the region are impeded by the great divergence of interests of the regional countries and deeply affected by the attitudes of the principal actors....at this point, Armenia and Azerbaijan are unable to agree on any of these issues including the prospects for settling Karabakh conflict and achievement of regional security. Far from helping to phase out the current confrontation in the Caucasus, this serves to enhance the trend towards polarization, with Armenia, Iran and Russia facing Azerbaijan, Georgia and Turkey backed by the USA and NATO.”<sup>99</sup>

The parties to the conflict rejected the participation of some mediators because of their involvement in the conflict on the side of their adversaries. The Armenian opposition to Turkey and Azeri suspicion towards Russia could be considered as an

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<sup>97</sup> A quotation by in May 1993 explains the situation in a very succinct way: “To my great regret, the war between Armenia and Azerbaijan long ceased to be a war between two rivals from the Caucasus. This is a war in which the combating peoples have become the pawns of the mightier powers.” “The Role of Caspian Oil in Maintaining Stability in the Caucasus Region: In the Case of Mountainous Karabakh Conflict,” Chapter 1, Available [Online]: <<http://www.azerbaijan.com/azeri/dadash2.htm>> [9 September 2006].

<sup>98</sup> Cornell, *Small Nations and Great Powers*, 113.

<sup>99</sup> Malysheva, “The Conflict in Nagorno-Karabakh,” 280.

example to these. As the efforts of the regional powers have been seen biased by the warring factions, the mediation attempts failed in many instances.

The role of Russia however should be discussed in detail here since the development of the armed conflicts and the ceasefire agreements has a lot to do with Russian policies and its involvement. A general Russian policy to reestablish a certain level of control in the region played a big role in the development of the aforementioned crises and armed conflicts.<sup>100</sup>

In that line of thinking, Russian policy was concentrated around establishment of a military presence in Azerbaijan and Armenia. The shift in Russian policies towards ethnicities and Caspian states coincides with their choices to allow Russian forces on their territory.<sup>101</sup> Although Russia sided with Azerbaijan for a long time, after the rise of nationalist movements and anti-Soviet sentiments in Azerbaijan, Russia provided full support to Armenia and transferred large amounts of weaponry. Soon after the Azeri government joined in the CIS, Russia started to back Azerbaijan and in 1994 a ceasefire was brokered by Russia.<sup>102</sup> The same attitude was also visible in the Georgian conflicts.<sup>103</sup> Only after the Georgian government allowed Russian troops on Georgian soil, the ceasefire entered into force through Russian mediation.<sup>104</sup>

Despite the fact that the OSCE and in some cases UN involved in the peace process in Transcaucasia region, the ceasefire agreements have been reached through

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<sup>100</sup> Suzanne Crow, "Russia Seeks Leadership in Regional Peacekeeping," *RFE/RL Research Report*, 9 April 1993, 28.

<sup>101</sup> Betts, "Third Party Mediation," 171–73.

<sup>102</sup> Aydin Balayev and Aliaga Memedov, "The Karabakh Conflict and Present Day Situation," 345–55.

<sup>103</sup> Although Russia involved in peacekeeping activities some state that Russia is interested in keeping the region destabilized. On the other hand some argues that rather than instability, "the contemporary status quo lacking a full solution therefore seems to suit Russian objectives best." Menzel, *Doomed to Cooperate*, 129.

<sup>104</sup> For more details on the Russian activities to maintain its influence in the region, see Arslan, "Azerbaycan Ekonomisinde Gecis Donemi," 125–253.

Russian initiatives leaving no ground of success for international institutions. After years of armed conflict and negotiations, the transcaucasia region remains to be an area of potential violence since no permanent solution to the disputes have been reached. For the time being, parties to conflict see it in their interest to avoid another military confrontation as it has proved to be very costly in terms of lives that perished and the devastation that it left behind

## CONCLUSIONS: INSTABILITY AND OIL DEVELOPMENT

The instability caused by the wars in Azerbaijan, Armenia, Chechnya and Georgia affected the development of oil industry in the Caspian region. First of all, up until the signing of the ceasefires agreements, there has been no serious development in the Caspian region. The countries of the Caspian states and especially Azerbaijan as an oil producing country had to use their national resources for the compensation of the war and reconstruction of the country. If anything that the conflicts caused in the Caspian region is the use of national resources for war and after war reconstruction. However, these resources could have been effectively used for the early development of oil reserves which would have opened way for an earlier development in the export of oil from Caspian to other countries. President Ilham Aliyev confirmed this that “the absence of a solution to this problem represents a constant source of considerable danger for the region. And my opinion is that the sooner this conflict is settled, the quicker peace and prosperity come to the region and the risks are reduced,”<sup>105</sup> The signing of the Contract

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<sup>105</sup> “Azerbaijan President Calls Karabakh Conflict Source of Danger for Region,” *Interfax T08:52:47Z*, Tuesday, 29 August 2006.

of the Century became possible after the end of the conflict between Azerbaijan and Armenia in 1994.<sup>106</sup>

The Caspian oil reserves are located mostly offshore and require a high tech drilling equipments which are not available to Caspian states. The old Soviet oil industry and equipment no longer effectively served the purpose. Depended on the oil reserves, Caspian states were in need of serious foreign involvement in the oil industry. However, the political instability in the region and wars prevented the flow of foreign investment in the Caspian Sea. Investment in oil industry requires huge commitments and a large amount of money which makes the oil companies very sensitive to the present and future stability of the region.<sup>107</sup> Having seen this necessity and the need for foreign direct investment (FDI), Azerbaijan accepted the ceasefire agreement and focused on more on the oil industry and export.

However, a permanent stability in the region is far from complete as the fundamental issues between states remain to be resolved and potential for an escalation of armed conflict is possible in the future depending on the course of developments and interstate relationships.<sup>108</sup> The involvement of the United States in the peace process in the region could be considered from this perspective, with the arrival American oil companies and the rising investment, the U.S. government started to pay more attention

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<sup>106</sup> We may suggest that the war between Azerbaijan and Armenia at least slowed down Azeri oil industry and export by four years considering the start and end of the conflict between two rivals. One may also suggest that the war has slowed down the developments by more than 4 years considering the fact that Azerbaijan had to spend some of its national resources and efforts for after war reconstruction and rehabilitation.

<sup>107</sup> See Steve A. Yetiv, "Peace, Interdependence, and the Middle East, *Political Science Quarterly* 12, no. 1 (1997): 36.

<sup>108</sup> If either country (Georgia and/or Azerbaijan) were affected by internal turmoil due to unsettled succession problems, popular discontent might well be directed against the political establishment. This in turn would trigger the flight of international investment. Urs Gerber, "Whither South Caucasus: To Prosperity or to Conflict?" in *The Caspian: Politics, Energy and Security*, ed. Shirin Akiner (London: RoutledgeCurzon-Taylor Francis Group, 2004), 326.

to the Caspian affairs.<sup>109</sup> As Kenneth Weisbrode confirms, “The incentive of the U.S. and Turkey to control any renewed conflict has increased with growing commercial investment in the region.”<sup>110</sup> In 1997, alongside with France, the United States joined in the Minsk Group as a co-chair to promote peace talks between Armenia and Azerbaijan. For United States, “conflict resolution efforts are motivated by the underlying strategic objective of realizing an east-west corridor. This implies that as Washington became more interested in the Caspian Sea’s energy resources, the interest in the solution of Karabakh conflict grew, precisely because the potential for conflict poses risk for investors. Yet, if this conflict is resolved, further opportunities for regional cooperation will emerge.”<sup>111</sup>

Yet, the instability in the region and the conflicts between different groups continued to pose problems for the development of oil business in the Caspian region. Especially within the discussions of pipelines and possible routes towards open seas, the existing conflicts and potential for escalation posed serious threats.<sup>112</sup> As the proposed pipelines had to go through certain areas in the region, where the security of the pipelines could not be guaranteed because of the potential for wars and trouble spots, the

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<sup>109</sup> Although the United States supported the territorial integrity of Azerbaijan, a powerful Armenian lobby in the United States affected U.S. involvement in the region and precluded Azerbaijan from receiving U.S. aid through Section 907 of the Freedom Support Act; despite the fact that Armenia currently occupies a 20 percent of Azeri territory. As the United States got involved in the Caspian Sea oil development process, the impact of Armenian lobby is doomed to fade because of the vast influence of oil lobby in the United States. (For more on the Armenian Lobby and changing balance in Washington see Chorbajian, *The Making of Nagorno-Karabakh*, 20–22.)

<sup>110</sup> Weisbrode, *Central Eurasia: Prize or Quicksand?*, 32.

<sup>111</sup> Menzel, *Doomed to Cooperate*, 126.

<sup>112</sup> “Not one drop of Azeri oil will flow from the Caspian to international markets.” R. Kocharyan, the president of Armenia. “The Role of Caspian Oil in Maintaining Stability in the Caucasus Region: In the Case of Mountainous Karabakh Conflict,” Chapter 2, Available [Online]: <<http://www.azerbaijan.com/azeri/dadash3.htm>> [2 December 2004].

development of pipeline projects have been delayed for some time.<sup>113</sup> Because of the Azeri Armenian conflict, the proposed Baku-Ceyhan pipeline had to be extended towards Georgian territory, despite the fact that route towards Armenia to Turkey could have been a lot easier and cheaper.<sup>114</sup> Yet any proposal of such nature has been immediately rejected by Azeris. The same is true for an Iranian option that has been fiercely opposed by the United States because of the conflict between Iran and the United States. The conflicts and wars in the region reduced the possible options for the development of oil industry and the pipeline proposals; as it is also true for Russia that the Chechen crises in the region diminished the potential for Northern route as a viable option for the transportation of the Caspian oil. Although the conflicts in the region have been frozen, it still poses a threat to the development of oil industry in the Caspian region and also for smooth functioning of the economies of the regional states.

Apart from the human sufferings and the devastation that the armed conflicts have left behind, the development of oil industry in the Caspian Sea region has also been affected. Although these conflicts did not stop the eventual start of the improvements and investments in the oil industry, they have certainly slowed down the progress and prevented an effective and a steady development in the Caspian Sea region. For the future of the region and development of oil reserves in the Caspian Sea, it is important to note that “the necessary investments will only flow if investors can be assured of

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<sup>113</sup> Azerbaijan and International oil companies have always had great concerns on the security of the Baku-Novorossiysk pipeline over its security and viability as a stable option. During the fight between Chechnya and Russia, the pipeline has been damaged and sabotaged by the Chechen insurgents. They have also used the pipeline to threaten the Russian military operations in the region. Additionally, the local people developed a habit of breaking into the pipeline to steal oil. Despite the fact that Russia insisted on the Baku-Novorossiysk as MEP for Azeri oil, it could not provide a safe and a secure passage for the transportation of Azeri oil.

<sup>114</sup> Despite the signing of the ceasefire agreements between Georgia and South Ossetia, the Baku-Ceyhan pipeline's security has been questioned on the ground that it passes through some of the areas that has witnessed ethnic conflicts in Georgia.



adequate profits, this will require stability, the rule of law, a basic perception of prosperity and some degree of democracy in the region. Hence, the future prosperity of the region will depend in large measures on issues of stability and security.”<sup>115</sup>

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<sup>115</sup> Gerber, “Whither South Caucasus?” 322–23.

## CHAPTER VI

### THE ROLE OF INSTITUTIONS IN THE CASPIAN SEA REGION

The oil and gas reserves of the Caspian states are still underdeveloped more than a decade and a half after their independence. After the dissolution of the Soviet Empire, there was a wide consensus among energy economists and experts that the countries of the Caspian region would become important players in international oil markets. The disappointing level of developments should not be attributed to the absence of an interest and/or enthusiasm in these countries. In contrast, the countries of the Caspian Sea have been quite enthusiastic about the development of their oil industry and the potential for their economies. A bleak picture of the economies of the Caspian states and the fading expectations about the future prosperity that is expected to come with oil exports raises questions about the future prospects for the development of Caspian oil resources. The question here is not about the potential of the oil resources to provide wealth and economic opportunities for the Caspian states, but about the issue of the slow developments of the oil industry, contrary to the expectations and the desires of these states as well as international oil companies which has so far invested millions of dollars.

In this chapter, I will focus on the role of international institutions in resolving the interstate conflicts and issues in the Caspian region. By doing so, I intend to explore the role of IOs in the achievement of cooperation among states on the development of the Caspian Sea oil reserves. As we have argued in the previous chapters, cooperation among the states in the Caspian region over the development of Caspian Sea oil reserves has been quite slow and/or absent in some instances. If International Organizations are

said to be an important mechanism through which states achieve cooperation on varieties of issues in different realms, we should be looking at the Caspian environment and try to find out why IOs in the Caspian region proved to be ineffective in the achievement of interstate cooperation, especially over the development of Caspian oil industry.

The Caspian region has been under Soviet rule for the last seventy years. The issues in the region have been dealt with under the terms of the Soviet rule. The countries of the Caspian Sea did not have chance to establish interstate institutions to deal with economic and political issues. As it is the case for the Central Asian countries, the transition period has proved itself to be very painful for the Caspian states as they have found themselves in an environment surrounded with, political, economic, social and ecological issues some of which are deeply rooted in the legacy of Soviet Union to establish a firm control over the region.

Nonetheless, the former Soviet Republics struggled to find their way onto a straight path on their own with limited success. A region of high geopolitical value and rich oil reserves was not expected to be left alone. The involvement of the external powers and the competition for influence in the region complicated the efforts of the Caspian States to consolidate themselves as stable political entities. Alongside with the Central Asian states and other former Soviet republics, the Caspian states were pressured into working their issues through establishment of international institutions with the initiation of the CIS (Commonwealth of Independent States) by Russia, an international organization emerged in the region and established itself as an important body in the regional affairs of the Caspian and the Central Asian states. Along with the CIS as an international organization, some other institutions played important role in the Caspian

region. The establishment of GUAM by Georgia, Ukraine, Azerbaijan and Moldova and the involvement of OSCE in the economic, political and security realms provided multiple venues for interstate cooperation and resolution of issues among regional countries. Despite the availability of International Organizations (IOs or IGOs), the resolution of regional issues under organizational structure has not been quite effective. The role of IOs in resolving issues among states and increasing the possibility of interstate cooperation has been recognized by the neoliberal school in International Relations Theory. The success of the International Organizations in Europe to bring the European States together and provide a forum for the discussion of the deep rooted conflicts has been given as an example for the potential of IOs to provide peace and resolution to conflicts. The neorealist school on the other hand, disregards the potential for a great success under IO roof and considers the possibility of conflict resolution and peace very limited.

#### INTERNATIONAL INSTITUTIONS IN THE CASPIAN CONTEXT

Before going through the examination of particular international and regional organizations that existed in the Caspian region, some of the basic discussions in International Relations Theory over the role of Intergovernmental Organizations (IGOs) in international relations will be covered.<sup>1</sup>

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<sup>1</sup> This is not intended to be a comprehensive analysis of the current debate between neorealists and neoliberal schools. For more information on the details of liberal perspective, see Keohane and Nye, *Power and Interdependence*; Oran R. Young, "International Regimes: Toward a New Theory of Institutions," *World Politics* 39 (October 1986); Young, "The Effectiveness of International Institutions"; Ruggie, "Continuity and Transformation in the World Polity"; Wendt, "Constructing International Politics"; Kupchan and Kupchan "The Promise of Collective Security"; Ruggie, "The False Premise of Realism"; Keohane and Martin, "The Promise of Institutional Theory"; Keohane and Martin, "The Promise of Institutional Theory: Response to John J. Mearsheimer," 42; Martin and Simmons, "Theories and Empirical Studies of International Organizations"; Schweller and Preiss, "A Tale of Two Realisms";

An *institution* is defined as a “set of rules that stipulate the ways in which state should cooperate and compete with each other.”<sup>2</sup> The differences between realists and liberal thinkers in their perception of states in international arena as an actor give rise to the differences in their approach to international institutions.

The realist paradigm assumes that there is a power struggle between states. Their aim is to be the dominant actor in international arena as well as preventing the other states from gaining power. In this setting, the struggle is continuous and the space for cooperation is very limited that makes global peace impossible. The ordering principle in international politics is anarchy and each state has to rely on its military capabilities. Since no state can be sure about the others’ intention, competition is continuous. The basic motive for the state is survival and they need military power for potential threats.<sup>3</sup> In doing so, they want to maximize their relative gain. According to the realists, cooperation among states is only possible if it is meaningful in terms of their national interests. An important point here is the analysis of relative/absolute gain that jeopardizes international cooperation. Additionally, fear of being cheated in cooperation drives states away from cooperation. It is because that, in absolute gain, states focus only on their gain but in real world states pursue relative gain that calculates its sheer gain on the basis of other’s gain and loss.<sup>4</sup>

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Baldwin, *Neorealism and Neoliberalism*; Milner, “International Theories of Cooperation Among Nations: A Review Essay,” 466–96. For the details of the neoliberal approach to the ongoing debate see Mearsheimer, “The False Promise of International Institutions”; Martin and Simmons, “Theories and Empirical Studies of International Organizations.”

<sup>2</sup> Mearsheimer, “The False Promise of International Institutions,” 8. In clarifying the definition, Mearsheimer says that institutions include the description of the norms that regulates state behavior and proscription of unacceptable kinds of behavior. He also argues that realism sees institutions as the reflection of the distribution of power in the world.

<sup>3</sup> Joseph M. Grieco, “Anarchy and the Limits of Cooperation, 485–507.

<sup>4</sup> For more on the realist views, see Morgenthau, *Politics among Nations*; Kenneth N. Waltz, *Theory of International Politics* (Reading, MA: Addison-Wesley, 1979); Kenneth Waltz, “Anarchic Orders and

For realists, institutions reflect state calculations of self-interest based primarily on concerns about relative power; as a result, institutional outcomes invariably reflect the balance of power. Institutions, realists maintain, do not have significant independent effects on state behavior. However, realists recognize that great powers sometimes find institutions—especially alliances—useful for maintaining or even increasing their share of world power. For example, it was more efficient for the United States and its allies to balance against the Soviets through NATO than through a less formal and more ad hoc alliance. But NATO did not force its member states to behave contrary to balance-of-power logic.<sup>5</sup>

Neoliberals criticize neorealist approach on the bases of the lack of any sort of approach that under what circumstances realist paradigms operates. They, thereby assert that, institutionalism as theory offers the explanation of the conditions under which it operates and plays its role. Liberals claims that “scientific theories should specify the conditions under which the theory is expected to hold a priori.”<sup>6</sup> By the same token, institutionalists explain the benefits of institutions that help the states to cooperate if they really wish to cooperate. According to Keohane and Martin, institutions can “provide information, reduce transaction costs, make commitment more credible, establish focal points for coordination and in general facilitate the operation of reciprocity.”<sup>7</sup>

In *Triangulating Peace*, Russett and. Oneal find positive correlation between the number of membership of a state’s in International Organization and the likelihood of conflict.

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Balance of Power,” in *Neorealism and its Critics*, ed. Robert O. Keohane (New York: Columbia University Press, 1986); Baldwin, *Neorealism and Neoliberalism*; Keohane, ed., *Neorealism and its Critics*.

<sup>5</sup> Mearsheimer, “The False Promise of International Institutions.”

<sup>6</sup> Keohane and Martin, “The Promise of Institutional Theory: Response to John J. Mearsheimer,” 41.

<sup>7</sup> *Ibid.*, 42.

According to Russett and Oneal, states with high number of IO membership are less likely to involve in armed conflicts.<sup>8</sup>

Neoliberalists strongly oppose to the realist claim that the institutionalists can only explain the issues in economy but in the field of security it simply does not apply. They assert that, institutionalism does not ignore an important area that states are continuously interacting. Institutions can provide information that can also lead cooperation in security fields. This can eliminate the basic issue of worst-case assumptions of the states about each other's intentions. According to Mearsheimer, when states cooperate with each other, the major concern is not absolute gain but relative gain. Therefore Mearsheimer concludes that "institutions have minimal influence on states' behavior and thus hold little promise for promoting the stability in the post-Cold War."<sup>9</sup>

The institutional theory contends that relative gain concern is conditional and is not valid at all time. Thus, Liberal Institutionalists try to determine the conditions under which relative/absolute gain does or does not constitute a problem for states, and the role of institutions when distributional issues are at stake. They assert that, institutions can be helpful in the bargaining process by providing information thereby creating a transparent environment for states to negotiate their issues. Keohane and Martin emphasize on the creation of the institutions by states. If they are created by states, we can ask why states would create such institutions if they did not trust and expect them to play a role. If the institutions are not going to be helpful anyway, why states devote such amount of

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<sup>8</sup> Bruce Russett and John R. Oneal, *Triangulating Peace: Democracy, Interdependence, and International Organizations* (New York: Norton, 2001), 157–96.

<sup>9</sup> Mearsheimer, "The False Promise of International Institutions," 7.

resources for them?<sup>10</sup> Keohane and Martin argues that “the necessity for institutions does not mean that they are always valuable, much less they operate without respect to power and interests, constitute a panacea for violent conflicts or always reduce the likelihood of war. Claiming too much for international institutions would indeed be a ‘false promise.’ But in a world politics constrained by state power and divergent interests, and unlikely to experience effective hierarchical governance, international institutions operating on the basis of reciprocity will be components of any lasting peace.”<sup>11</sup>

## COMMONWEALTH OF INDEPENDENT STATES (CIS) AND REGIONAL COOPERATION

CIS has been one of the institutions that served as an important forum for the republics of the former Soviet Union. It has also been an arena where member states voiced their criticisms and concerns against each other. It is important in the sense that development of CIS as an institution and the developments within the CIS reflect the general trends in the region and the nature of the interstate relationship. For this reason, in this chapter I will look at the major developments within the CIS to identify the impact of this institutional structure on the interstate cooperation in the Caspian region and on the development of the Caspian oil.

In the aftermath of the dissolution of the Soviet Union, Gorbachev and Yeltsin were in search of another entity to replace Soviet Union. At a time of confusion and

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<sup>10</sup> Keohane and Martin give some examples that show how institutions worked in regulating interstate behaviors. The first example is the European Court of Justice that had an impact on “European integration transforming political into legal issues with the aid of transnational lawyers and judges.” Keohane and Martin, “The Promise of Institutional Theory: Response to John J. Mearsheimer,” 48. The second example is the role of EC in reducing the doubts among European states. They say that, EC has done a lot in preventing cheating and facilitating cooperation and coordinating sanctions.

<sup>11</sup> Ibid., 50. See also Charles A. Kupchan and Clifford A. Kupchan, “Concerts, Collective Security, and the Future of Europe,” *International Security* 16, no. 1 (Summer 1991): 114–61.



chaos, everyone had a different view about the future of the Soviet Union. While Gorbachev favored a more centralized union with the former Soviet Republics, Yeltsin sought for a loose and a decentralized system of unity that would give the central government only the powers that the participating republics were willing to cede.<sup>12</sup> On the other hand, the newly independent states of the former Soviet Union were not in a position to join in an organization that would jeopardize their sovereignty. Ukraine, as an important part of the Slavic world, enthusiastically favored independence and rejected Russian plans to establish a new form of supranational entity. Appalled with the Ukrainian move, Russian Federation quickly moved and in December 1991 established Commonwealth of Slavic States (CSS). This was a loose organization in which member States enjoyed full sovereignty.<sup>13</sup> Only with this condition Ukrainian president Leonid Kravchuk agreed to sign the Union. The establishment of a Slavic block alarmed some of the former republics in Central Asia. Being left out of the new establishment, the Central Asian states especially Kazakhstan wanted to participate in the CSS. Under the new conditions the new organization renamed to Commonwealth of Independent States with an open membership to all former Soviet Republics. With the signing of Alma-Ata protocol, other Central Asian and Caucasus states joined the Union along with Moldova. Only the Baltic States rejected from the very beginning to be a part of any other establishment that would involve a level of integration with Russia.

During the first years of the establishment of the CIS, the Union had no clear vision or a policy regarding the management of the issues among the members and the

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<sup>12</sup> John B. Dunlop, *The Rise of Russia and the Fall of Soviet Empire* (Princeton, NJ: Princeton University Press, 1993), 266–67.

<sup>13</sup> Robert H. Donaldson and Joseph L. Noguee, *The Foreign Policy of Russia: Changing Systems, Enduring Interests*, 2<sup>nd</sup> ed. (Armonk, NY: M.E. Sharpe, 2005), 181.

future projects related to integration. The evolution of the CIS as a regional organization coincides with the developments in Russian domestic politics. Just after the independence a liberal trend dominated the Russian political thinking. Within the framework of westward policies, market economy and democratization of Russian institutions, the Russian approach to CIS and its policies have been quite constructive.<sup>14</sup> As the priority was given to integration with West and modernization of the country to western standards, the countries of the former Soviet Union enjoyed a great level of independence.<sup>15</sup> During the first years of the CIS's establishment, the response of the countries of the former Soviet Union differed from each other owing to geography, economic interdependence and the legacy of the past.

The Central Asian countries surprisingly are the ones that enthusiastically supported the consolidation of CIS as a regional organization to manage, economic, political and security issues. The level of economic dependence played a big role in the Central Asian countries' decision to work within an institutional framework. As Odom and Dujarric explains the reaction of the Central Asian states:

The old communist rulers who remained in power in all states but Kyrgyzstan were reluctant to break fully with the Russian-dominated organization. They were not anxious to see the old command economic arrangements of the soviet system collapse. Nor did they want to see the expansion of popular participation in their own countries. Like their conservative counterparts in Moscow, they sought to slow down even stop the transition to liberal democracy and market economies.<sup>16</sup>

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<sup>14</sup> Alex Pravda, "Russia and the Near Abroad," in *Developments in Russian Politics*, eds. Alex Pravda and Zvi Gitelman (Durham, NC: Duke University Press, 2001), 215; Nicole J. Jackson, *Russian Foreign Policy and the CIS: Theories, Debates and Actions* (London, New York: Routledge, 2003), 51–54.

<sup>15</sup> Russian Foreign Minister visited the Central Asian countries in April 1992 but by that time American counterpart had already paid three visits to the region. Dincer Tascikar, "Orta Asyadaki Ekonomik Reformlar ve Yeni Buyuk Oyun," in *Turk Cumhuriyetleri ve Petrol Boru Hatlari*, ed. Allaeddin Yalcinkaya (Ankara: Baglam Yayincilik, 1998), 236.

<sup>16</sup> William E. Odom and Robert Dujarric, *Commonwealth or Empire?: Russia, Central Asia and the Transcaucasus* (Indianapolis, IN: Hudson Institute, 1995), 12.

The economies of the former Soviet Union are strongly linked to each other. An old Soviet policy to maintain control and dependence was the distribution of economic sectors to different countries. While Central Asian countries produced cotton, they had to send it to Russia for processing. Likewise, other sectors in the industry were also closely interlinked among the former Soviet Republics.<sup>17</sup> Caught in a complex web of economic and political issues, the Central Asian countries strongly opted for an institution like CIS and adamantly supported Russia throughout the 1990s in its quest to strengthen the CIS as an effective mechanism in the management of regional and interstate affairs.

Contrary to the policies of the Central Asian states, Azerbaijan and Georgia maintained a distance from any type of organization that might eventually lead to Russian domination of its members. The historical experiences and the Russian brutality in suppressing the independence movements in these two countries (1989–Georgia, and Black Friday in 1991 in Azerbaijan) mainly forced these countries to abstain from joining in the CIS. Armenia, on the other hand, as a Caucasus state preferred to be a part of this organization as it saw the possibility of Russian alliance in Armenian war against Azerbaijan.<sup>18</sup> Moldova followed Azerbaijan and Georgia in its decision not to be an integral part of this establishment because of the same types of concerns and the role of Russia in an internal crisis in Moldova erupted in 1992. As we can see from the different reactions of the former Soviet Republics towards CIS, the nature of the new organization was not known to its members and each country had their own considerations and expectations. The absence of a clear vision and policies governing the interstate relationship under CIS roof continued up until the time Russia started to place a certain

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<sup>17</sup> Tascikar, "Orta Asyadaki Ekonomik Reformlar ve Yeni Buyuk Oyun," 235–36.

<sup>18</sup> Henry E. Hale, "Independence and Integration in the Caspian Basin," *Sais Review* 19, no. 1 (1999): 169.

level of importance to its relationship with its Near Abroad.<sup>19</sup> The rise of concerns over Near Abroad is related to the resurgence of nationalism within Russian domestic circles. As the liberal policies of Yeltsin administration produced no promising results and the internal economy worsened in the light of new market policies, Russian nationalism and the critique of Yeltsin's western policies gained momentum. Yeltsin administration did not just ignore the domestic trends in favor of the establishment of Russian sphere of influence in the Near Abroad but followed a moderate path to accommodate the domestic constituency. Internal pressure within Russia increased to establish integration with the CIS countries and the Russian government stepped up to develop integration with CIS countries under CIS roof.<sup>20</sup>

This move was welcomed by some Central Asian states while the governments of Georgia, Azerbaijan, Moldova and Ukraine strictly opposed to a process of integration with Russian Federation under CIS. They have seen it as a way of Russian policy to maintain control over the former Soviet Union states which Central Asian countries saw as an opportunity to guarantee Russian support in economic, political and security areas.<sup>21</sup> Russia took certain steps to develop CIS into a fully fledged regional organization which is able to provide security guarantees to its members at the same time serve the purpose of integration. The Russian policy to create a common CIS military represents a classical example of institutional dilemma in the post-Soviet world. The differences among the member states became apparent as the Russian government

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<sup>19</sup> The countries of former Soviet Union that were once part of the USSR have been labeled as Near Abroad by Russians.

<sup>20</sup> For more on the details of the link between Russian domestic politics and of the gradual shift in the Russian foreign policies towards CIS and the, see Jackson, *Russian Foreign Policy and the CIS*, 60–66.

<sup>21</sup> Hale, "Independence and Integration in the Caspian Basin," 165.

insisted on joint military space under CIS.<sup>22</sup> It was clear from the very beginning that the command of the CIS army was to be given to Russian commanders. Some of the member states stated their desire to establish their own military structure and opposed Russian proposal for a CIS army to protect the joint military space. Opponents of integration perceived this as a clear threat to their independence and cast their veto in the negotiations. In the end, the idea for a joint army had to be abandoned but member states agreed to establish a Council of Defense Ministers based in Moscow.<sup>23</sup>

CIS integration of the member states under a joint military or a common economic zone encountered numerous problems. First of all, decisions taken by the member states of the CIS were not compulsory and there has not been a mechanism to enforce the CIS directives and policies. Member states were free to join in certain agreements and they were also free to apply or ignore the provisions set forth in the treaties and agreements. "Decisions require the unanimous consent all those voting. As a matter of practice, most of the decisions reached have not been put into effect. Not infrequently, several members failed to appear in scheduled summit meetings. By failing to participate in a CIS decision, a member is free to opt out of compliance, but even those members participating in decisions and agreeing with them are not obliged to comply and often do not. President Nur Sultan Nazarbayev of Kazakhstan, one of the most ardent supporters of integration, complained in 1994 that of 452 agreements signed within the CIS framework most were never implemented."<sup>24</sup> Most of the important agreements had

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<sup>22</sup> It took years for Russia and other member states to come to realize that the idea of a joint military space cannot be applied across a large geography with different security concerns and alliances. For more on the details of the debate among the members of CIS see Odom and Dujarric, *Commonwealth or Empire?*, 15–30.

<sup>23</sup> By mid-1993, all support for a unified CIS command has dissipated and on June 15, its abolition was announced in Moscow. Donaldson and Noguee, *The Foreign Policy of Russia*, 184.

<sup>24</sup> *Ibid.*, 182.

to be ratified by the parliaments of the member states before entering into force. The loose decision making and enforcing mechanism seriously harmed the effectiveness of the CIS as a regional institution. Another factor that discredited the CIS from the very beginning is the suspicion towards Russia and its assertiveness within CIS for integration. Some of the member states considered this as a direct infringement upon their survival as a sovereign and independent entity.<sup>25</sup> Despite the fact that CIS has been developed by Russia to promote integration, in the following years, member states turned CIS into a forum to discuss post-Soviet transition process and problems and cast their complaints towards Russia. The extent of the criticisms and pressure from member states occasionally left Russia in a difficult situation; such that even Russia had to abstain from signing of many treaties and protocols developed under CIS roof.<sup>26</sup>

Another aspect of integration under CIS is the establishment of free economic zone and the linking of the economies of the member states. Starting with 1992, the differences in economies and future prospects and domestic remedies taken to improve economic structure created confusion and disagreement. Economic integration has been seen as an integral part of integration under the CIS and member states signed numerous treaties and agreements regarding the management of economic policies of the CIS states and the increasing of the trade relations. The difficulties attached to the transition from command economy to market economy greatly circumvented the efforts of member states

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<sup>25</sup> Ukrainian President Viktor Yushchenko said that Ukraine is "against the creation of supranational bodies within the framework of the CIS. If we discuss the economic part of our relations, we cannot support those principles in line with which we can build relations within the framework of the Single Economic Space (of Ukraine, Belarus, Russia and Kazakhstan) if, for example, these principles end up damaging our integration into Europe. Rationalization of relations within the framework of the CIS should take place in the interests of countries, at the technological and economic level, where we can know of the rational benefits for participant states." "Ukrainian, Georgian Presidents Note Need For 'Economic Rationale' in CIS," *KIEV INTERFAX-UKRAINE-T18:01:46Z*, 25 March 2005.

<sup>26</sup> "Russia Won't Take Part in Some CIS Agreements," *INTERFAX-T11:29:01Z*, 26 July 2005.

to manage their economies under CIS terms. A search for a better and more effective economic management is also directly related to the development of oil in the Caspian Sea region. That is why the economic developments in Russia and elsewhere in the CIS forced the Caspian states to develop their own economies within the context of available resources. Therefore the trend towards the development of oil resources is directly related to the economic environment that the Caspian states found themselves in after the dissolution of Soviet Empire and Russian unilateral policies to secure its economic future.

The Russian unilateral policies towards liberalization of its economy and the drastic measures taken by Russia to stabilize its monetary policies had negative impacts on the former Soviet Republics which were very much depended on the stability of the Russian currency “ruble” as they had not established their own currency. In 1992, the Russian Federation introduced price control at domestic level and adapted new regulations concerning the monetary transactions with Banks outside the federation.<sup>27</sup>

Caught in the tide of Russian liberalization of its economy, the ruble zone had great difficulties in the management of their economies. The unilateral policies of Russian Federation forced the CIS states to develop their own economic policies and projects.<sup>28</sup> Dependence on Russian economic system have had dramatic affects and after 1993 Russian decision to impose restrictions on the use of ruble in Russia printed before 1993.<sup>29</sup> Member states adapted new policies and introduced their own currencies against the Russian unilateral approach. The gap between rhetoric and reality grew bigger in the

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<sup>27</sup> Donaldson and Noguee, *The Foreign Policy of Russia*, 193.

<sup>28</sup> Pravda, “Russia and the Near Abroad,” 215–24.

<sup>29</sup> Nozar Alaolmolki, *Life after Soviet Union, the Newly Independent Republics of Transcaucasus and Central Asia* (Albany: State University of New York Press, 2001), 27–29.

coming years within CIS. The concept of economic integration have proved to be false especially after the signing of many agreements on the establishment of Unified Monetary System in 1992, Common Market 1993 and Single Economic Space intended to integrate the economies of CIS states but have never been materialized in the absence of a clear compliance problem by member states.<sup>30</sup>

The failure of the Joint Military Force under CIS and the establishment of a Unified Economic Space made the organization ineffective in those realms. But Russian insistence on the creation of a sphere of influence over CIS continued throughout the decade. In fact, Russian persistence increased as the domestic pressure intensified in the light of the external developments that have been perceived as a threat to Russian influence in the region. The enlargement of NATO towards Russia and the extension of Peace for Partnership Program agitated the extremists in Russia and provoked the Russian government. In a speech delivered to Federation Council, Russian foreign minister Andrei Kozyrev announced that "Russia is making every effort to combat the drive for some CIS states to join NATO. At the time, the official Russian attitude towards NATO was becoming increasingly negative. NATO was accused of being wedded to the stereotypes of bloc thinking and Russia was indecisive about the extent to which it would participate in the Peace for Partnership Program."<sup>31</sup> Especially the developments that have taken place in the area of oil development in the Caspian region and the involvement of western oil companies and the United States forced Russia to take countermeasures to maintain an exclusive Russian sphere of influence in the Near

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<sup>30</sup> Ukraine did not put its signature on the establishment of a free trade zone which has been seen as an important cornerstone in the development of CIS. "BDT'nin Serbest Ticaret Girişimi Ukrayna'ya Takıldı," *Zaman Gazetesi*, 6 April 2005.

<sup>31</sup> Jackson, *Russian Foreign Policy and the CIS*, 74.



Abroad. This gave rise to Russian efforts to consolidate its presence in the countries of Central Asia and Transcaucasia. The events that followed the rejection of the Georgian and Azeri government to join in the CIS should be viewed within this framework. Russia has actively followed policies that could pressure these states into joining CIS. The ethnic conflicts in Georgia, Moldova and Azerbaijan provided a golden opportunity for Russia to convince these states into joining the CIS. After a few years of conflict and negotiation, Azeri, Georgian and Moldovan governments revised their policies and reluctantly joined in the CIS.<sup>32</sup> This has given Russia the opportunity to deploy Russian troops to maintain stability in the conflict zones also the ability to influence local governments into Russian objectives. The Tashkent Treaty on Collective Security signed on May 1992 could also be considered as a Russian move to increase its military presence in the territories of member states. Bilateral agreements on the joint protection of the borders and the establishment of a Common Air Defense System under CIS were intended to serve Russian domination of its Near Abroad. However, the responses of the member states and the following developments limited the effectiveness of the Russian maneuvers. First of all, Moldova and Ukraine never joined in Tashkent Collective Security Treaty leaving the initiative less than a common objective within CIS. Uzbekistan, Azerbaijan and Georgia withdrew from treaty in 1999 on the ground that it did not serve their interests and the treaty only aimed at the extension of Russian domination of CIS.<sup>33</sup>

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<sup>32</sup> The following are the dates that CIS members joined in the organization: Russia 1991, Belarus 1991, Ukraine 1991, Moldova 1991, Kazakhstan 1991, Azerbaijan 1991, Armenia 1991, Kyrgyzstan 1991, Uzbekistan 1991, Tajikistan 1991, Georgia 1993; in Feb 2006, withdrew from the Council of Defense Ministers, Turkmenistan 1991; withdrew 2005, associate member since then.

<sup>33</sup> Georgian President Shevardnadze said that "once a treaty of cooperation in the sphere of defense is signed, we will continue cooperation with Russia, the scale of which will depend on various circumstances. The fact that not all countries have extended the CIS collective security treaty, which has not been working

Russia demanded a special recognition in many occasions from the UN in the Near Abroad as a privileged actor including the recognition of rights to deploy Russian forces if the developments posed a threat to regional stability and to Russian interests. These have been rejected by the UN and the OSCE and been opposed by major regional powers<sup>34</sup> as well as some CIS members; especially the states of the Caucasus region.<sup>35</sup> In an address to UN General Assembly in September 1993, Andrei Kozyrev “defended a special peacekeeping role for Russia in the CIS states and demanded that Russian peacekeeping forces be given the status of UN peacekeepers.”<sup>36</sup>

The deployment of Russian peacekeeping forces throughout the CIS coincides with Russian imperialistic policies.<sup>37</sup> Russian policymakers claim that Russia is affected by the developments in the CIS and has to involve in order to maintain stability in the region on the following grounds:

- Russia has a responsibility to protect Russian minorities in the territories of the former Soviet Republics
- Any conflict in the region carries a potential to spread Russia
- Need for control of the Islamic Fundamentalism as it may spread to Russian Federation

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anyway, should not be over dramatized. Our refusal to extend it does not signify that we have withdrawn from it.” “Shevardnadze Talks of Need to Transform GUAM Grouping,” *Moscow Interfax*, reported in *FBIS-SOV-1999-0419*, 19 April 1999.

<sup>34</sup> Turkey for its part tried to keep a balanced distance to the developments in the former Soviet Union not to alarm Russia. For more information on the Turkish approach to CIS, see A. Suat Bilge, “Commonwealth of Independent States and Turkey,” *Eurasian Studies* 1, no. 4 (1995): 63–100.

<sup>35</sup> Russian Foreign Minister also sought legitimacy for Russian peacekeeping rights within CIS through OSCE, EU and Arab States. *RFE/RL Daily Report*, no. 147, 4 August 1993.

<sup>36</sup> Odom and Dujarric, *Commonwealth or Empire?*, 31.

<sup>37</sup> For more on the Russian imperialistic policies see Dimitri K. Simes, *After the Collapse: Russia Seeks its Place as a Great Power* (New York, NY: Simon & Schuster, 1999).

- Separatist movements outside of Russian Federation might encourage separatist movements in Russia

The idea of peacekeeping within CIS was first brought up by the president of Kazakhstan in 1992 and approved by the ten of the fourteen states. Initially the nature of these operations were formulated after the general UN principles; such as, mutual consent of the parties in conflict to accept peacekeeping forces, voluntary participation, joint command...etc. However, within the CIS context, the deployment of peacekeeping forces carried different patterns in each of the five major armed conflicts that broke out within the territories of the member states. (Tajikistan, Azerbaijan, Georgia and Moldova)

We may argue that the CIS has been in a steady decline considering the fall in its effectiveness as an instrument in providing cooperation on political, economic and security issues.<sup>38</sup> It has actually become a tradition within CIS that member states put their signatures on treaties and agreements without much consideration and expectation. Implementation of these treaties and agreements has usually failed because of the absence of a sanctioning system and the reluctance of member states to comply with CIS norms. Meetings of the CIS and its subunits are not attended by all of the member states and unanimity is hardly a case on many issues.<sup>39</sup> Because of the ineffectiveness of CIS as an organization to enforce its rules and regulations over member states, CIS could not

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<sup>38</sup> Turkmenistan leader Niyazov claimed that CIS has become a political institution and therefore they see it is in their best interest to withdraw from the organization. The neutrality of Turkmenistan prevents it from becoming a part of military alliances. "Aşabat, BDT'den Kopuyor," *Zaman Gazetesi*, 28 August 2005.

<sup>39</sup> *Zaman Gazetesi* reports that the member states of CIS can no longer come together full cadre and Kremlin is getting used to the idea that CIS may dissolve in the future. "BDT Zirvesi Son Kez mi Toplanıyor?" *Zaman Gazetesi*, 27 August 2005.

achieve an international recognition as a viable instrument in the territories of the former Soviet Union.<sup>40</sup>

This is not to ignore the partial success of CIS in some areas such as the negotiation of the issues among member states arising from the independence from Soviet Union and sharing of the resources left on the territories of CIS members after the dissolution of the Soviet Union.<sup>41</sup> Immediate problems just after the independence have been dealt with under CIS roof and especially the Central Asian states found it useful to bring up their concerns and demands from Russia. Despite the fact that CIS has served some purpose but failed to develop into fully fledged regional organizations, no one is in favor of a policy to dissolve the establishment at all.<sup>42</sup>

Unlike the CIS countries, Russia switched to making bilateral agreements with CIS states after it has become clear that Russia will not be able to pass its policies within CIS under a common ground where CIS states could oppose Russia altogether. The

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<sup>40</sup> After the withdrawal of Georgia and Azerbaijan from Tashkent Collective Security Treaty, Armenia seems to be the only loyal member of the CIS in the Caucasus region. "Geriye bir Erivan Kaldı," *Milliyet Gazetesi*, 27 March 2005.

<sup>41</sup> The countries of the former Soviet Union inherited a large amount of military establishments and arms. The nuclear weapons stationed in some of these countries presented a great difficulty and a danger to Russia and later the United States. Some of these issues were negotiated under CIS roof but some major problems needed to be resolved with the assistance from the United States.

<sup>42</sup> CIS Foreign Ministers and other agencies continued to work on certain issues and aimed at reforming the CIS institutions. CIS has long been blamed to be an ineffective institution in addressing the regional issues. "CIS Foreign Ministers to Discuss Reforming CIS Institutions," *Interfax-T15:35:36Z*, 17 April 2006.

establishment of Air Defense System<sup>43</sup> through bilateral talks with the member states produced positive outcomes for Russia except, Azerbaijan and Moldova.<sup>44</sup>

The effectiveness of CIS has been curbed by the lack of commitment from the member states. The lack of trust in the institution stems from the fact that some member states joined in the CIS reluctantly under Russian pressure. The Russian pressure on Azeri and Georgian governments is an indication of this nature and also an explanation for the commitment gap.<sup>45</sup> In addition to this is also the widespread suspicion on the side of many CIS member states that CIS is intended to be a mechanism to promote Russian interests in the region. The Ukrainian opposition to CIS along with Azerbaijan and Georgia mainly concentrated on the possibility of integration under CIS to replace Soviet Union. Ukraine's suspicion and resistance is considered to be one of the main obstacles for Russia to advance its interests and policies within CIS and prevented the development of CIS as a more viable regional organization. Compared to the other international organizations, the commitment gap and the involuntary membership present a big differentiation.

Another important difference between the CIS and other international organizations is the fact that CIS states and especially Russia failed to develop a

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<sup>43</sup> Kyrgyz Defense Minister Ismail Isakov praises "The Russian party's assistance in the framework of the CIS Unified Air Defense System is of great importance for our republic. The Kyrgyz Air Defense Forces have received military-technical assistance totaling 15 million rubles (\$557,030) by now." "Kyrgyzstani Minister Praises Air Defense Cooperation with Russia," *Agentstvo Voyennykh Novostey*, Reported in *Interfax-T08:46:05Z*, 12 May 2006. "An agreement to set up a single regional air defense system for Russia and Belarus will be signed late in 2006, said the state secretary of the Belarusian Security Council, Viktor Sheiman." ("Russia-Belarus Common Air Defense Deal to Be Signed Late 2006," *Interfax-T13:44:29Z*, 21 September 2006. See also "Russia Completes Delivery of S-300 Air Defense Systems to Belarus," *Interfax*, 29 May 2006.

<sup>44</sup> "Crash of the Commonwealth Begins with Disintegration of Defense Structures: Russia's Closest Military Allies Are Leaving," *FBIS Translated Text T14:42:05Z*, *Nezavisimaya Gazeta*, 31 August 2005.

<sup>45</sup> Speaking about the CIS, Yushchenko said that today it is "a machine which was produced with such great effort, but it gives so little steam. He said that its coefficient of beneficial action is significantly lower than the results which were expected. This is a fact which obviously every state is admitting." "Ukrainian, Georgian Presidents Note Need for 'Economic Rationale' in CIS."

comprehensive and universally recognizable set of rules and policies to govern the interstate relationship within the organization. The absence of a clear rules and regulations left the member states unchecked and each of the member states acted in line with their national interests. The reluctance to vest trust and sovereignty in CIS management rendered the institution powerless when it comes to the enforcement of the mutual agreements and treaties.<sup>46</sup>

A vast divergence in the policies and expectations of the CIS members also contributed to the failure of the organization while some Central Asian states inclined towards Russia, some other states perceived that it is in their best interest to align with Western states. For example, Belarusian President Alexander Lukashenko said “the pooling of efforts within the scope of the Commonwealth of Independent States is a movement in the right direction. The pooling of our efforts, resources and production capacities, the strengthening of cooperation in the international sphere benefits our peoples.”<sup>47</sup> The split has seriously affected the policies of the member states not to invest too much in the CIS but rather look towards the West.<sup>48</sup> Russian Deputy Foreign Minister Grigory Karasin, in an interview with *Rossiiskaya Gazeta*, indicates this split within the

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<sup>46</sup> Existence of an enforcement mechanism increases the chances of an organization to be much more effective. Compared to UN and Security Council for example, the relevant article of the UN Charter gives to the Security Council both conciliatory and coercive powers. The Security Council can try to settle the problems between the states by means of negotiation, enquiry, mediation, arbitration, judicial settlement or regional as well as other peaceful means of their choice. In case of a direct threat, to the peace, the Security Council may legally take stronger action, but the prerequisite for a strong action is that all members should decide that the matter indeed threaten the peace (Article 39). The Security Council can also recommend temporary measures or move directly to a call on members to apply diplomatic and economic sanctions (Article 40, 41). The Security Council has the right to use armed forces provided by the members of the UN (Article 42, 43).

<sup>47</sup> “Belarusian President Supports Pooling of CIS Efforts,” *ITAR-TASS-T13:40:30Z*, 11 January 2006.

<sup>48</sup> Georgian Defense Minister Giorgi Baramidze told reporters in Tbilisi that he would not be attending a session of the council of Commonwealth of Independent States’ (CIS) Defense Ministers scheduled for today in Moscow. Baramidze justified this decision by telling reporters on Wednesday that the CIS is “yesterday’s history,” and that Georgia’s future was “in cooperation with NATO Defense Ministers.” “Georgian Defense Minister Defies CIS,” *ISN SECURITY WATC*, 25 November 2004. Available [Online]: <<http://www.isn.ch/news/sw/details.cfm?ID=10230>> [25 April 2006].

organization. "Numerous media reports that predict the imminent collapse of the CIS have appeared recently. Perhaps, I will disappoint you, but my first impressions regarding the situation in the Commonwealth are much more optimistic."<sup>49</sup> Azerbaijan, Georgia, Ukraine and Moldova are prime examples for anti-Russian, pro-Western states within CIS.<sup>50</sup> The extension of the Peace for Partnership to the Caucasus and the Caspian region could be viewed from this perspective. The desire of Ukraine, Moldova, and Georgia and Azerbaijan to be a part of NATO alliance in the future is a clear indication of the huge split between pro-Russian and pro-Western groups.<sup>51</sup>

#### GUAM AND THE REGIONAL COOPERATION IN THE CASPIAN SEA

The development of GUAM as an organization characterizes the major split within the CIS. GUAM is an acronym that stands for "Georgia, Ukraine, Azerbaijan and Moldova." One thing that is common among these states is the opposition to Russian efforts for unification and integration under CIS to replace the former Soviet Union.<sup>52</sup> It is also the fact that three of these four states are the victims of direct Russian involvement in their internal affairs and in the ethnic conflicts in their territories.

<sup>49</sup> "Russia Against 'Forced Democratization' of CIS," *INTERFAX-T08:03:53Z*, 16 August 2005.

<sup>50</sup> Belarusian president criticized the GUAM countries' move with regard to creating another unit that would undermine CIS. He said that "the situation is different in Ukraine and Georgia. The leaders of some countries go still farther in denying the positive role of the CIS. Using the slogans on quitting the CIS, and setting up alternative associations, they are trying to win points from their foreign patrons. "Belarusian President Supports Pooling of CIS Efforts," *ITAR-TASS-T13:40:30Z*, 11 January 2006.

<sup>51</sup> Moldovan President Vladimir Voronin said on 19 September that he was disappointed by the decision adopted by Russia, Kazakhstan, Ukraine, and Belarus at the Yalta summit of the Commonwealth of Independent States (CIS) to set up a Single Economic Space between the four countries, Flux and AFP reported. Voronin said the decision will without doubt lead to "a depreciation of the CIS stock" and, as a result, Moldova is likely to "step up our efforts to join the EU." In a statement released by the presidential office, Voronin said the four countries' decision shows "the possible modernization of the CIS has been abandoned for good." *RFE/RL Newslines* 7, no. 180, 22 September 2003.

<sup>52</sup> "GUAM Countries United by Complaints against Russia," *Rossiyskaya Gazeta*, 2 December 1997, 7 reported in *FBIS-SOV-97-337*, 3 December 1997.

The roots of the establishment of GUAM go back to 1996 where the leaders of Georgia, Azerbaijan and Ukraine came up with the idea to resist Russia and benefit from a possible oil boom in the Caspian Sea.<sup>53</sup> Moldova joined in this group later in 1997. The main idea behind this new establishment was “to have a western oriented integration project of their own, built largely around efforts to create a ‘Eurasian Corridor’ of highways, railroads and pipelines running from China to Europe in circumventing Russia.”<sup>54</sup>

The members of GUAM have been careful in their policies not to antagonize Russia. From the very beginning they have stated that the GUAM is purely an economic union aimed at increasing trade relations and establishing areas of cooperation in transportation and commerce. They have also made it very clear that this initiative was not directed in anyway at Russia. Speaking at a joint news conference with Georgian President Mikheil Saakashvili in Kiev on Friday 25 March, Yushchenko said that “today we are saying this: we are not leaving the CIS. Ukraine is ready to support all the rational parts of this project.”<sup>55</sup>

In 1999, the member states of GUAM met in Washington DC to clarify their shared concerns and willingness to increase cooperation within GUAM. This has taken place in the United States at the NATO’s 50<sup>th</sup> anniversary summit. This has indicated a U.S. involvement in the process or at least an American support for the GUAM countries. This has caused grievances for Russia as the American involvement in the CIS region has

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<sup>53</sup> Hale, “Independence and Integration in the Caspian Basin,” 181.

<sup>54</sup> Ibid..

<sup>55</sup> “Ukrainian, Georgian Presidents Note Need for ‘Economic Rationale’ in CIS.”



been perceived as a threat to Russian interests.<sup>56</sup> GUAM Member states have sought some sort of NATO link between NATO and GUAM in the areas of security.<sup>57</sup>

However, the advancement of GUAM as an organization in the areas of security created some concerns on the Russian side. Michael Waller argues that, “the existence of GUAM and the growing U.S. military presence in Central Asia after 11 September 2001 were instrumental in the creation of the Organization of the Agreement on Collective Security (ODKB) in Dushanbe in Tajikistan on 28 April 2003.”<sup>58</sup>

Uzbekistan also joined GUAM for a brief period and the name of the organization was changed to GUUAM. Because of the other issues of consideration Uzbekistan decided to leave the institution in June 2002 claiming that GUUAM has been ineffective as a security institution.<sup>59</sup> “Less is better; yes, better, after Uzbekistan's departure, we will not become more passive” said the head of Georgia's Foreign Affairs Ministry, Irakli Menagarishvili. “But we consider Uzbekistan an important partner and hope for its return.”<sup>60</sup> One of the key aspects of the GUAM is the bringing of the Western countries and institutions into the region to counter the Russian power and influence.<sup>61</sup> Azerbaijan

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<sup>56</sup> Aleksandr Dugin et al., “Growing, Unwelcome U.S. Intrusion seen in CIS,” *The Current Digest of the Post-Soviet Press* 57, no. 16 (May 2005): 1–4.

<sup>57</sup> GUAM countries also considering a GUAM Peacekeeping force to be deployed within the territories of GUAM countries. “GUAM Considering Creating a Peacekeeping Force—Azeri Minister,” *Interfax-T13:01:07Z*, 31 May 2006.

<sup>58</sup> Michael Waller, *Russian Politics Today: The Return of a Tradition* (Manchester, New York: Manchester University Press, 2005), 259. The agreement revived a treaty dating from 1992 that involved Russia, Belarus, Armenia, Kazakhstan, Kyrgyzstan and Tajikistan (The Collective Security Treaty). The new Organization had the same membership. In its new form it has its own budget, secretariat, military staff and rapid deployment force. Its main military base is at the Kant airfield in Kyrgyzstan.

<sup>59</sup> It is mainly the Russian anger that the Central Asian states had to consider since their dependence on Russia far exceeds the Caucasus states.

<sup>60</sup> “GUAM Member Foreign Ministers Meet in Baku to Review Course after Karimov Decision,” *Baku Zerkalo*, 3 July 2002.

<sup>61</sup> Russia is opposed to the idea of democratizing CIS nations against their will and is concerned that such methods could lead to instability and a growth of extremism, Deputy Foreign Minister Grigory Karasin said in an interview with *Rossiiskaya Gazeta* published on Tuesday. “We do not think that other international players cannot have their specific interests in CIS states, but we cannot agree with any methods of ‘forced

has especially been very active in this realm<sup>62</sup> and sought for direct support from the United States and NATO for the protection of the oil pipelines and the security of the region.<sup>63</sup>

With members continuing to improve relations with each other,<sup>64</sup> GUAM continues to be an important institution for its members to cooperate on varieties of issue including the development and transportation of Caspian oil.<sup>65</sup> Azeri President Ilham Aliyev responded to questions about the organization saying that “the organization (GUAM) is assuming new forms. It is developing. We hope for fruitful work and expect the summit to give even stronger impetus to the development of our ties.”<sup>66</sup> The desire of the member states to use GUAM actively stems from the fact that member states see it as a useful tool to counter Russian imperialistic policies in the territories of the former Soviet Union. Compared to CIS, GUAM enjoyed a high level of commitment by the

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Democratization’ in the former Soviet republics—whether it be ‘colored revolutions’ or media and political pressure on those who rule those countries,” he said. “It will inevitably lead to destabilization in the region and a surge in extremism,” Karasin said. Russia has its own interests in former Soviet republics and will defend these interests, the deputy minister said “Russia Against ‘Forced Democratization’ of CIS—Deputy Minister.”

<sup>62</sup> “Azerbaijan Wants More Cooperation Within GUAM—Foreign Minister,” *Interfax-T14:48:47Z*, 2 December 2005.

<sup>63</sup> “Moldovan President: GUAM Must Draft Agreement on Cooperation with EU,” *Interfax-T14:48:47Z*, 23 May 2006.

<sup>64</sup> Georgian President Mikhail Saakashvili said at a GUAM summit in Kyiv on Tuesday that “We are creating an organization which will have viable mechanisms. Regrettably, the CIS has not accomplished its mission. Moldova and Georgia are having difficulty transporting their cargoes. Cooperation in collective security has not taken place either. All GUAM member-states are prepared to cooperate in economic and security issues and in the fight against separatism and terrorism. We need this project from a commercial standpoint. However, when it comes to politics, it is absolutely essential.” “GUAM Becoming Effective International Organization—Saakashvili,” *Interfax-T13:39:49Z*, 23 May 2006.

<sup>65</sup> “GUAM Countries to Discuss Energy Security,” *ITAR-TASS-T17:23:07Z*, 14 February 2006.

<sup>66</sup> Asked about energy projects Aliyev said: “No specific new projects are in mind. We are currently involved only in research.” “GUAM Developing Dynamically—Azeri President,” *Interfax-2006 T12:40:48Z*, 22 May 2006.

member states but the availability of economic, political and military resources within the institutions hampered the effectiveness of the institution.<sup>67</sup>

On the other hand, the voluntary membership and the constructive efforts of the member states to improve GUAM increase the chances of this organization to be successful in its realm in the future. Although the potential for GUAM to expand is very limited, the institution may continue to play a limited role in the Caspian–Caucasus area. GUAM's success will depend on its ability to bring external powers (United States and Western States) into the region.<sup>68</sup>

#### OSCE AND THE CASPIAN REGION

OSCE is one of the other organization that have been involved in the developments in the region starting with the break up of the Soviet Union and the acceleration of the ethnic conflicts.<sup>69</sup> OSCE has actively been involved in the settlement of disputes among Azerbaijan and Nagorno-Karabakh Armenians and pursued a policy of mediation in the armed conflict between Abkhazia and Georgia. With its organizational structure and membership, OSCE is different from CIS and GUAM. OSCE is comprised of a large membership across Europe, Russia, Caucasus and the Central Asia. OSCE enjoyed a high level of legitimacy and neutrality in its mediation efforts in the Caucasus

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<sup>67</sup> Rovsen Ibrahimov, "TRACECA Programi ve Onun Azerbaycan Iqtisadiyyatinin Inkisafindaki Rolu," Nasireddin Tusi'nin 800 Yillik Jubilesi icin Duzenlenmis Konferans, Azerbaycan Beynelxalkq Universiteti, Baki, 2–3 Nisan 2001.

<sup>68</sup> GUAM countries searching for options that would involve the Western institutions to the region. "A new militarized formation claiming the role of chief CIS peacekeeper will soon appear in the post-Soviet area. This was declared in Tbilisi late last week at a meeting held by representatives of military departments of GUAM (Georgia, Ukraine, Azerbaijan, and Moldova) member states. In this respect, the Georgian Defense Ministry noted that creation of an inter-state peacekeeping battalion stems from the plans of GUAM countries to participate jointly in peacekeeping and humanitarian operations conducted under the aegis of the CIS, OSCE, NATO, and the EU." Svetlana Gamova, "GUAM States Discuss CIS Peacekeeping Unit; Unrecognized Republics Opposed," *Interfax-T14:56:37Z: Nezavisimaya Gazeta*, 22 August 2006.

<sup>69</sup> The details of OSCE's mediation efforts have been covered in the previous chapter. Here the focus will be more on its inability to contribute to interstate cooperation as an institution in the Transcaspiian region.

and in other areas that OSCE has involved. Compared to the advantageous position of OSCE and the relative availability of resources, its success has been limited in the Caucasus-Caspian region.

One of the issue areas that OSCE has been put to test is the internal conflicts in the Transcaucasus region. OSCE pursued a policy of mediation in the conflict between Azerbaijan and Armenia and provided assistance to the settlement of the disputes within Georgia. OSCE's failure in bringing a settlement among the parties to the conflict is related to varieties of reasons; some of which are directly or indirectly related to the structure of the OSCE itself. Despite the OSCE's large membership and neutrality, OSCE lacked a mechanism to enforce any kind of settlement on the conflicting parties. Unlike CIS where Russia enjoyed a great level of comfort in pressuring the opposing parties towards certain directions, OSCE had to rely on the goodwill of the warring factions to resolve their issues and come to a compromise. This has made OSCE nothing but an advisory mechanism such that Azeris and Armenians were in total freedom to listen or to ignore. Under these circumstances, Azerbaijan and the Armenians of Nagorno-Karabakh acted in line with their national interests and avoided making any kind of compromise that would open ways for the resolution of the conflict. In addition to the irreconcilable policies and attitudes of the parties in conflict, OSCE had hard time in controlling Russia in its pursuit of unilateral policies to find a solution to the issues at hand. The absence of congruity among the members of OSCE towards a solution to the conflict and the Russian efforts to remain as an influential power in the region by being the one who could broker a ceasefire prevented OSCE from achieving a settlement to the disputes and made OSCE ineffective in the affairs of the Caspian region. It would be an

incomplete analysis to declare OSCE as an organization that has failed in Transcaucasus region without referring to the existence of interstate rivalry and competition for influence over the region and the active involvement of external powers to impose their orders that serve their interests best.

#### OSCE MINSK GROUP AND MEMBERS

In 1994, cease-fire between Azerbaijan and Armenia did not bring permanent solution to the crises in the region. The United States and some western countries favored a complete solution that would guarantee long-term stability in the region especially for oil business to function/move on smoothly. On the other hand, the Russian view of stability was different from that of United States and as long as Russia maintained strong foothold in the region, occasional disruptions of stability or conflicts did not constitute a big problem. This way Russia would always use these developments to consolidate its position in the Caspian Region. These fundamental differences in understanding and expectations gave rise to series of disagreements within OSCE Minsk Group's effort to bring permanent peace to Nagorno-Karabakh conflict. Mediation attempts in 1997 and the developments have shown that the effectiveness of institutions or regimes depended on the willingness of the members to make certain compromises. Besides, the issue was not only to bring peace to warring parties but also who would bring it and under what conditions peace could be brokered. France in some occasions sided with Russia and without informing the United States; they invited Yerevan and Baku to Moscow to discuss the terms of a final resolution. In other occasions, members of the Minsk Group displayed different views/concerns about the peacekeeping forces that were to be

deployed. In the end misunderstandings, security and relative gain concerns have precluded OSCE from becoming effective in the solution of Nagorno-Karabakh conflict. Continuation of the wars and conflicts directly prevented the development of oil industry in the region by rendering the interstate cooperation less likely, leaving the regional stability in question. One of the reasons that the efforts of Minsk Group could not produce expected outcome is the existence of strong relative gain consideration between Azerbaijan and Armenia. Although no one was satisfied with the *status quo*, they did not want to deteriorate their position by making further compromises. Armenian main concern is the possibility that Azerbaijan would profit from oil business and start speaking from a military strength. Azerbaijan, on the other hand, felt itself as a victim of aggression and did not want to let go of the occupied territories that would weaken Azerbaijan. Therefore any compromise each side was offered to make was perceived as if the other side would exploit a relative gain to its advantage.<sup>70</sup>

Regardless of what had actually happened in the complex interstate rivalry in the Transcaucasus and the Caspian region, the OSCE could not help to the achievement of interstate cooperation in the Caspian region.<sup>71</sup> The OSCE mission in the Caspian region in the areas of democracy humanitarian aid, human rights and displaced persons provided certain level of success but far from achieving a considerable level of change in the policies of regional states.<sup>72</sup> The contribution of the OSCE to peace and interstate

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<sup>70</sup> Neorealist Grieco would suggest that fear of survival impeded the cooperation between two states and rendered the international initiative ineffective. As neorealists would also suggest, the absence of sanctioning mechanism makes the international institutions ineffective, as in the case of OSCE Minsk Group.

<sup>71</sup> Emin Erturk, *Ekonomik Entegrasyon Teorisi ve Turkiyenin Icinde Bulundugu Entegrasyonlar* (Bursa: Ezgi Kitabevi Yayinlari, 1993).

<sup>72</sup> Details of OSCE mission in the Transcaucasus region can be found Online at: The Organization for Security and Co-operation in Europe (OSCE), "Regions: Caucasus," <<http://www.osce.org/regions/13001.html>> [22 September 2006].

cooperation in the region is yet to be seen but will largely depend on the willingness of the member states to comply with OSCE policies and proposals and the consolidation of OSCE's hand by the major powers in the region.

## INTERNATIONAL REGIMES AND OIL DEVELOPMENT IN THE CASPIAN SEA

Development of oil resources in the Caspian region requires a certain level of interstate cooperation. We have considered varieties of factors that contributed or prevented the achievement of cooperation over the development of oil industry. Apart from the international institutions which have affected the courses of the developments in the region, and in a very limited way, contributed to interstate cooperation, existence or absence of international regimes may have affected the developments as well.

Regime analysis has been used for the last three decades to explore the patterns of state cooperation on different issue areas; ranging from aviation to environment and to security. The discussions centered on the role of the regimes to create a normative framework to deal with specific issues and to achieve cooperation. We define regimes as "set of implicit and explicit rules principles, rules and norms and decision making procedures around which actor's expectation converge in a given area of international relations."<sup>73</sup> Since the international regimes can involve multiplicity of issues, actors, rules and decision-making procedures they can happen to be different from each other. It might be the reason that we have a wide range of arguments and point of views about international regimes. While most of the scholars, belonging to different schools, agree on the possibility of success and cooperation in environmental and economic realms, the

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<sup>73</sup> Stephen D. Krasner, "Structural Causes and Regime Consequences," in *International Regimes*, ed. Stephen D. Krasner (Ithaca: Cornell University Press, 1983), 2.

role of the regimes in security arena is quite controversial. The discussion is mainly between the scholars of Neo-realism and Neo-liberalism as to whether the regimes are autonomous actors in international politics or the extension and reflection of states' policies. Since the initial premises take us to different ends, both schools happen to be advocating the extreme point of views, although they agree on the basic elements of international system, which are the existence of anarchy and the importance of states' interaction at systemic level.

The supporters of the international regimes emphasize their roles as a mediator to achieve cooperation among states on different issue areas. Although it goes long to cover the whole dimensions of the discussions on the possibility of cooperation and the conditions under which it is more likely, we may give a short description of the role of international regimes in international politics to provide a preliminary insight into the discussions.

Scholars of international relations argue that regimes can serve many purposes to help to the achievement of cooperation.<sup>74</sup> The first one is the mitigation of the systemic effects of anarchy, which is accepted to be a constraint on state behavior.<sup>75</sup> Existence of security dilemma and the relative/absolute gain analysis, which emerges out of anarchy, hinders the attainment of international cooperation. Another factor is the absence of a world government to enforce the states to act according to certain rules and principles. Under these conditions, we might easily conclude that cooperation seems to be less likely

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<sup>74</sup> Regimes constrain and regularize the behavior of participants, affect which issues among protagonists move on and off agendas, determine which activities are legitimized or condemned, influence whether when and how conflicts are resolved. Donald J. Puchala and Raymond F. Hopkins, "International Regimes: Lessons from Inductive Analysis" in *International Regimes*, ed. Stephen D. Krasner (Ithaca: Cornell University Press, 1983), 62.

<sup>75</sup> Oye, ed., *Cooperation under Anarchy*, 11.



under the systemic effects of security dilemma. The neo-liberal contention is that regimes can facilitate cooperation by ameliorating anarchy. It is generally accepted that, regimes provide transparency by increasing the availability of information and exchange of it through the mechanisms of the regime, which decreases the negative perceptions of the states against each other.<sup>76</sup> The third element that is made possible by the establishment of the regimes is the decreasing transaction costs. Under normal conditions, it might take long to come together and create an environment for cooperation. What regimes do is to provide a forum where states can easily communicate with each other, which might increase the likelihood of cooperation.<sup>77</sup> The last one is the possibility that regimes can provide issue linkage and can lengthen the shadow of future.<sup>78</sup> As the functionalists argue, linking different issues with each other can create a spill over effect. Cooperation in one area can produce further cooperation on other areas. In this context, what regime can provide is to initiate a process of cooperation in some areas that would spread to other areas in the future. These are the basic assumptions about what regimes might provide to help to the attainment of a certain level of cooperation among the participating states.

The Realist argument contends that, cooperation through establishment of international regimes is not likely to be successful and last long. The main reason for this is the existence of relative gain concerns and possibility of cheating. Since states are taken to be autonomous actors making cost-benefit analysis and pursuing pure national interests, it is hard to bring them into a regime where they have to yield some sovereignty. States are quite sensitive about their sovereignty, preservation of their

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<sup>76</sup> Ibid., 20,

<sup>77</sup> Keohane, *After Hegemony*.

<sup>78</sup> Milner, "International Theories of Cooperation Among Nations: A Review Essay," 466–96.

territorial integrity and assuring their security through acquisition of power. These lead them to be highly suspicious about the agreements and negotiations concerning these issues. Charles Lipson gives two reasons that why states are highly concerned about cooperating on security issues.

- The immediate and potentially grave losses to a player who attempts to cooperate without reciprocation; and
- The risks associated with inadequate monitoring of other's decisions and actions.<sup>79</sup>

The points stated above reflects the fact that, the distribution of power and the global hierarchy is an important element of regime creation and maintenance. As in the formation of regime, the maintenance of the regime also presents same patterns of relationship.<sup>80</sup> Most of the scholars of international relations consider the influence of hegemon as an important driving factor behind regimes. It both helps to the creation and the maintenance of the regime.<sup>81</sup> Those other states whose interests are not in line with the basic principles of the regime might prefer to remain silent due to the fact that a short or long term benefit of compliance is more than non-compliance.

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<sup>79</sup> Charles Lipson, "International Cooperation in Economic and Security Affairs," in *Neorealism and Neoliberalism: The Contemporary Debate*, ed. David A. Baldwin (New York: Columbia University Press, 1993).

<sup>80</sup> As Arthur A. Stein puts it, the same factors that explain regime formation also explain regime maintenance change and dissolution. Regimes are maintained as long as the patterns of interest that gave rise to them remain. Artur A. Stein, "Coordination and Coordination: Regimes in an Anarchic World," in *International Regimes*, ed. Stephen D. Krasner (Ithaca: Cornell University Press, 1983), 137.

<sup>81</sup> As Keohane explains, "the formation of international regimes normally depend on hegemony and the maintenance of order requires continued hegemony." Keohane, *After Hegemony*, 31, 49.

## CASPIAN OIL AND REGIME FORMATION

Neoliberals argue that international regimes through several mechanisms increase the likelihood of cooperation. In the case of the legal status of the Caspian Sea, we have seen a clear absence of implicit or explicit rules or norms governing the state behavior. As the parties involved in the game pursued their own interests without considering the other options that were less favorable to them, it has become more and more difficult to adhere to certain rules and norms. The only rule that has been said to exist in the Caspian oil was the upholding commercial rules. In many cases the United States and other states affirm their adherence to commercial rules that they would pursue options that are commercially more sound.<sup>82</sup> It could be the fact that zero-sum thinking prevented the adherence and further establishment of international regimes and norms. The OSCE summit in Istanbul in 1999 is an example to this. Although it was supposed to contribute to the establishment of more friendly relations among countries and to create an environment in which actors could negotiate their differences, it became an arena for direct confrontation between Washington and Moscow. The chances for international cooperation deteriorated and tension increased between opposing blocks. Under these conditions, states pursued their options and used available resources to bring other parties onboard. Turkish American front was able to get Azerbaijan, Kazakhstan and Georgian support while Moscow and Iran remained opposed to the U.S.-led coalition. These developments can easily be explained by the Neorealist approach as states in anarchic

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<sup>82</sup> The only norm that was supposed to guide the oil business in the Caspian region was the adherence to commercial viability that some statesmen from time to time referred to. However, as it has been seen in the policies and inclinations of the states, despite the commercial dictations, states pursued their own interests. A clear example to this is the U.S. policy towards Iran to exclude Iran from all oil deals despite the fact that some projects could have been more profitable if they had been pursued as proposed by some oil companies and Iranian governments.

environment pursue self-interest policies and conflict with each other. Our discussion on regimes, however, only represent the time around which the discussions on the legal status of the Caspian Sea took place. As the time passed, the geopolitical considerations and interstate relationships have also changed. The mistrust and competition that characterized these times did not prevail all along the other developments in the Caspian region. However, it would be safe to say that, up until the time of the legal status issue no international regimes were in place.

One of the issues that is related to regime analysis is the legal status of the Caspian Sea and the conflict among the riparian states. The confusion over the status of the Caspian Sea hampered the development of oil industry for a long period of time. After the break up of the Soviet Union, the number of the coastal states increased to five giving rise to the emergence of a new discussion regarding the use and management of the sea.<sup>83</sup> The Caspian Sea has been used jointly between Iran and USSR for the last seventy years. No clear regime has ever existed nor the coastal states attempted to develop a common ground for the management and exploitation of the sea resources. The arrival of the new states and their enthusiasms about the use of oil resources under Caspian Sea sparked a long controversy among the riparian states. The main issue of contention centered on the legal status of the sea and the issue of delimitation versus condominium. While powerful states of Caspian Sea favored a regime of condominium, the newly independent states pushed for delimitation.<sup>84</sup> Condominium is a system of management through which the issues in a particular area is governed by the participation

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<sup>83</sup> For more on the controversy among the riparian states, see Dekmejian and Simonian, *Troubled Waters*.

<sup>84</sup> Cynthia M. Croissant and Michael P. Croissant, "The Legal Status of the Caspian Sea: Conflict and Compromise," in *Oil and Geopolitics in the Caspian Sea Region*, ed. Michael P. Croissant and Bülent Aras (Westport, CT: Praeger, 1999), 25.

of each member state on an equal basis.<sup>85</sup> Delimitation refers to the demarcation of the borders among the coastal states where each state can enjoy complete freedom and sovereignty over their shares.<sup>86</sup> Initially, Russia and Iran favored condominium over delimitation since the regime of joint governance would provide them a better environment in which they can use their preponderance of power over other states. The newly independent states of the Caspian Sea pushed for delimitation to escape Russian and Iranian domination and also to be able to develop their oil resources freely.<sup>87</sup>

In addition to the political choices of the coastal states, the economic benefits attached to the division of the sea also affected the developments and interstate relationships. The division of the sea, on the basis of a median line, would provide unequal percentage of the sea to the Caspian states, instead of an expected 20 percent share among five coastal states. As Geoffrey Kemp notes, Iran has a strong interest in claiming a share of the seabed beyond its own sector because the main oilfields lie in the middle of the Caspian Sea. The least promising waters are those off Iran.<sup>88</sup>

The main differences among the Caspian states continued to be a problem up to day with varying degrees of change in the attitudes of some of the member states. Due to the changes in the international and regional political and economic environment, the strong Russian behavior has changed and some bilateral agreements have been reached, especially in the northern part of the sea. The southern part of the sea remains to be an

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<sup>85</sup> Iran's long-recognized sector of the Caspian Sea covers 12 percent to 14 percent of its surface area. The collapse of the USSR has changed neither the size nor the status of the Iranian sector. However, Iran now demands either a condominium (or joint sovereignty) that would allow it to claim equal proceeds from all energy developed at the sea bed, regardless of its investment in that development or the expansion of its sector to at least 20 percent of the surface area and seabed. That territory includes part of the oil-rich Azerbaijani sector. Ariel Cohen, "Iran's Claim over Caspian Sea Resources Threaten Energy Security."

<sup>86</sup> For details of the legal dispute, see Horton and Memedov, "Legal Status of the Caspian Sea."

<sup>87</sup> Osman Nuri Aras, *Azeraycan'ın Hazar Ekonomisi ve Stratejisi* (Istanbul Der Yayinlari, 2001), 175–206.

<sup>88</sup> Geoffrey Kemp, "Iran and Caspian Energy," 57.

issue of contention and Iran stands firm on its original position on the legal status of the Caspian Sea.<sup>89</sup>

As we have indicated above, the creation or development of regimes would have helped to the achievement of interstate cooperation on conflicting issues. In the case of Caspian Sea and the issue of the legal status of the Caspian Sea, no regime has been created by the coastal states. Therefore the inability of the Caspian states to create a viable regime in the Caspian Sea might have undermined cooperation on the regional issues including the development of the Caspian oil resources.

## CONCLUSIONS

The success or failure of International Institutions in promoting peace and interstate cooperation is not universal. The experience of IOs in Europe is definitely different than in the Transcaucasian world. There are indeed vast differences between two regions. The political, economic, cultural and geographical differences may lead to different outcomes in terms of the success or failure of IOs.

The Caspian-Caucasian states have been under Russian control for centuries. Just after the dissolution of the Soviet Union these states started to interact within an international environment as an independent actor. Compared to the European countries, their experience in international politics and diplomacy is very limited. Only after two deadly world wars European countries started investing on international institutions as a guarantor of peace and security. Their experience with each other and the destructiveness of the wars in Europe have had dramatic impacts on the minds of the European leaders. The newly independent states of the Caspian and the transcaucasian states lack these

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<sup>89</sup> Aras, *Azeraycan'in Hazar Ekonomisi ve Stratejisi*, 198.

experiences and are not ready to rely on International Institutions for their security.

Apart from the other factors mentioned in this chapter, this has tremendously reduced the chances of IOs to become an effective instrument in the settlement of disputes.

In *Triangulating Peace*, Bruce Russett and John R. Oneal explain three important aspects of Kantian Peace; Democracy, Interdependence, and International Organizations all of which are available in the European context. The concept of democracy is very new to the countries of Caspian Sea. Although we can observe a certain level of interdependent relationship among the countries of the Caspian Sea, it is far from being a factor contributing to peace and stability in the region. Russett and Oneal argue that three legs of Kantian peace, democracy, economic interdependence and international organizations generate virtuous cycles of peace as opposed to vicious cycles of war. These three factors also positively affect each other. Existence of one of the legs positively contributes to the success of other generating a virtuous cycle of peace.

Among the other factors that have been discussed above, the inability of the international and regional institutions in the Transcaucasus to generate peace and contribute to the development of the Caspian oil resources might also be explained by the absence of the three legs of Kantian Peace.

## CHAPTER VII

## CONCLUSIONS

This chapter summarizes the major findings discussed throughout this dissertation. It also touches upon some of the issues raised in the previous chapters. This chapter also ties the major issues discussed in the Caspian region to the current developments in international arena where applicable.

This dissertation set out to establish a framework through which we would understand the major issues that affected states' decision to cooperate or abstain from cooperation in the Caspian region over the issues related to the development of Caspian oil resources. This dissertation explores the underlying reasons behind the lack of cooperation among the regional and external powers in the Transcaspian region. Although the extraction and the transportation of Caspian oil has the potential to provide economic development for the region as a whole and prosperity for the people of the Caspian states, Caspian governments have been unable to come up with a framework that would provide a viable physical and political environment for the development of the existing petroleum reserves.

Within the same context, this dissertation also sought to understand the main reasons behind the slow developments in the Caspian oil industry owing to lack of cooperation among the states and non-state actors. This is especially important considering the fact that it has been almost more than a decade and a half that the Caspian states and western oil companies started investing in the oil projects.



## IMPORTANCE OF CASPIAN OIL IN TODAY'S WORLD

Looking at the rate of current oil and gas production in the Caspian Sea region, one could assert that compared to Middle Eastern oil capacity or to the total oil production in the World, Caspian region could only contribute a small percentage.<sup>1</sup> (See Table 6.1 and 6.2) It is true that Caspian oil would never be an alternative to Middle Eastern oil but as many people acknowledge, the Caspian reserves may help to reduce the dependence on Middle East.<sup>2</sup> Diversification of energy resources is an important element of energy security for the whole world. Though a small percentage, Caspian oil could be a venue for energy diversification for some countries, especially the neighboring states; i.e. Turkey, China, Japan and Europe.

Apart from the implications of Caspian oil to the world, one of the things to consider is the contribution of Caspian oil to regional development. Most of the Caspian countries have been suffering from economic problems since their independence from the Soviet Union. As most of the governments of these Caspian states foresee, oil and gas is one of the biggest hope for these countries to fight poverty and underdevelopment. As the economical and political turmoil dominate the region from time to time with varying intensity, oil and gas export stands as the best possible option for improvement in all areas. There is no doubt that money made from oil and gas export play crucial role in the development of the Caspian regional states. It could bring prosperity not only to the exporting states but also to the whole region if the petro-dollars were used for the

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<sup>1</sup> 1.5 percent currently and 3.0 percent by 2010. Best scenarios predict that Caspian oil could only reach up to 5 percent of total world's production by 2015 or 2020.

<sup>2</sup> Gelb and Twyman, eds., *The Caspian Sea Region and Energy Resources*, 20.

development and improvement of the areas that need attention.<sup>3</sup> In addition, the use of oil resources in the ex-soviet states of Caspian region is crucial for their economic survival and independence.<sup>4</sup>

Though it has been said that Caspian oil would not change the balances in world oil markets, in the light of the recent developments and the sharply rising oil prices, the Caspian oil would again prove to be very important. As the demand and the price of oil go up, the world is going to need to utilize every possible resource that can be put into the market. Despite the difficulties of extraction and transportation, and the political and security issues related to the Caspian region, we come to realize the fact that international cooperation is an important factor in realizing the use of Caspian oil. Although there are varieties of numerical figures and estimates about Caspian oil reserves, a steady 3 million barrel by 2010 would have tremendous impact in the oil market. (Although it is below the Saudi production, it is going to be more than the Kuwaiti production of oil.)<sup>5</sup>

Three variables have been explored to what extent they can explain the lack of cooperation. Almost all of the former Soviet Republics in the Caspian basin are heavily dependent on the revenues coming from oil exports. (Share of oil and gas in Azeri exports amounts to 90 percent while it is 80 percent in Turkmenistan and 65 percent in

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<sup>3</sup> One of the problems that the Caspian states had with oil driven economy is the expectation that oil revenues would resolve most of their economical problems. This expectation prevented them from making substantial reforms in the economic area.

<sup>4</sup> Army Myers, Jaffe and Robert Manning, "The Shocks of a World Cheap of Oil," *Foreign Affairs* 79, no. 1 (January/February 2000): 21–22.

<sup>5</sup> "The Caspian is not and never has been a potential Middle East," Terry Adams, a senior associate of Cambridge Energy Research Associates told the Oil and Money conference. But with proven remaining recoverable reserves of 15–20 billion barrels, and a potential for 50 billion barrels—which would make it a "superior North Sea"—the region is a strategically important source of oil for the European Union. By 2020, crude production could reach 5 million barrels per day, which would equal only 3%–4% of world output. (Adams is a former head of BP-led Azerbaijan International Operating Co. (AIOC).) "Caspian Oil Remains Crucial to Energy Security for West," *The Oil Daily* 5, no. 2 (November 2001): 11.

Kazakhstan).<sup>6</sup> Development of an independent and healthy national economy surely rests on their success to establish a functioning oil industry. In an attempt to answer the main question asked with reference to the lack of cooperation among major players in the Caspian Sea region over the development of the Caspian oil reserves, the following variables have been investigated:

- political rivalry among the regional actors as well as external players over regional influence and control of oil resources in the Caspian Sea region,
- armed conflicts and military confrontations that affected the interstate relations in transcaucasia,
- and the presence and effectiveness of international institutions in the Caspian Sea region.

Among the independent variables studied in this dissertation, geopolitical rivalry seems to have the highest relevance with respect to the main question asked.

Geopolitical rivalry in this dissertation refers to the establishment of a zone of economic, political and military influence/ control over the region. Political rivalry, on the other hand, refers to the disagreements among internal and external players over the development of the Caspian oil resources. Rivalry also differs from conflict in the sense that it does not involve military confrontation and armed conflict.

Actors inside and outside the region see the region as their sphere of influence which makes it hard to cooperate on issues such as oil. The study of the interstate relations among the Caspian states and external powers has shown that the policies and approaches adapted by the major actors in the great game of the twenty-first century was

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<sup>6</sup> Data gathered from World Bank Country Briefs and Azerbaijan Ministry of Finance Fact Sheet.

mainly guided by relative gain calculations although other sources of concerns continued to affect their decisions and policies. This was actually very much consistent with the realist/neorealist perception of states as actors in international arena interacting with other states on the basis of national interests focusing more on possibility of change in the balance of power and relative gains.

There are numerous instances where states were more concerned with regional influence and geopolitical supremacy. On other occasions, some Caspian states were concerned more with economic and political independence from regional powers. If we were to categorize this in a general way, we could assert that:

- Great powers in the Caspian game pursued a policy of regional domination and influence, i.e., Russia, Turkey and Iran.
- Small states in the Caspian Sea region followed a policy promising a more independent future from regional powers.

This has become especially obvious in the study of the legal status of the Caspian Sea and the issue of pipelines which dominated the political agenda for almost more than a decade. The impact of national interest guided by relative gain consideration has also been visible in other areas of interstate relationship in the Caspian Sea as has been shown in the previous chapters which will also be given due consideration in the coming sections of the conclusion.

In the Caspian context, the sharing of the Caspian Sea among the bordering states after the collapse of the Soviet Union is among the first examples that clearly show the existence of national interest as an important impediment to the achievement of cooperation, which eventually affected the development of Caspian oil resources. On the

legal status of the Caspian Sea as a *lake* or a *sea* which changes the rules determining the sharing of the sea, each littoral state pushed for an option that would serve their interests best. The establishment of an alliance between Russia and Iran against the former Soviet republics is also an indication of states pursuing self interest policies to maintain their superior status in the region. The sharing of the Caspian Sea surface and the seabed has long remained as an issue of contention; with each side pushing for their own options. Since the littoral state could not achieve a common solution regarding the use of mineral resources lying under the sea, the Caspian oil industry developed at a rather slow speed compared to the expectations and the potential that it had to offer to the people in the region.

Another issue area where pursuing policies to maintain supremacy and secure their national interests has constituted a great obstacle for the development of Caspian oil resources is the issue of pipelines. Since the Caspian Sea is landlocked, construction of pipelines to export Caspian oil is the only viable option among the others that proved to be costly and ineffective in the long run.<sup>7</sup> Passing of the pipelines in certain direction is an issue of great concern for the littoral states as well as the neighboring countries. Apart from the economic benefits attached to the passing of the pipelines from certain territories, the issue of control and influence also dominated the thinking of the involved actors.

The Caspian pipeline construction has gone through two different phases. In the early years of oil production, the Caspian states produced limited amount of oil because of the capacity of the oil wells and the investment needed for the production and the

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<sup>7</sup> Swapping oil with other oil producers and transporting by railroad are among the available options for the Caspian oil producers.

transportation of the oil extracted. The number of players in the first round of the negotiations were relatively small compared the second phase that involved a large number of state and non-state actors. This has contributed to the achievement of the cooperation among the actors positively as the stake at hand was not considered so high. Looking at the issue from a perspective of relative vs. absolute gain analysis, each party focused on what they get and not on what the others might, leaving the chances for compromise very high. The focus on absolute gain, in the early phases of negotiations helped to the continuation of promising future negotiations for the actors involved in the pipeline debate. Parties involved in these negotiations basically prepared themselves for the main export pipelines since the issue at hand was not considered very important. In fact this has been the focal point of early negotiations for pipelines that each state in the debate did not focus on relative gain calculations. Given the state of international relations and global anarchic environment, relative gain calculations at that time could have stalled and eventually killed the prospects for future cooperation on pipeline negotiations. According to Game Theory, cooperation occurs when the involved actors expect to retrieve higher gain from mutual then unilateral action. Therefore the benefits of mutual cooperation (CC) relative to mutual defection (DD) are expected to be higher. In fact, the capacity of states to cooperate under anarchy, to obligate themselves to mutually beneficial courses of action without resort to any ultimate central authority is essential to the realization of a common good.<sup>8</sup> In addition to these, under iterated conditions the magnitude of the differences among pay offs within a class of games can be an important determinant of cooperation. The more substantial the gains from mutual

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<sup>8</sup> Oye, "Explaining Cooperation under Anarchy: Hypothesis and Strategies," 1–24.

cooperation (CC-DD), the less substantial the gains from unilateral defection (DC-CD), the greater the likelihood of cooperation.<sup>9</sup>

However, the negotiations for the main export pipelines were different in nature compared to the negotiations for the early oil pipelines. The stake at hand was considered high, so was the importance attached to the direction of the main export pipeline. Each party feared that a loss in this round would seriously damage their position in the great game of Caspian pipeline. Zero-sum thinking dominated the Main Export Pipeline (MEP) negotiations throughout most of the decade. In the negotiations for the MEP, relative gain considerations affected the policies of individual actors. As the number of actors in the MEP discussions increased, the chances for a common solution diminished. Existence of many of actors with different agenda and interests stalled the negotiations rendering the development of Caspian oil industry impossible in such an environment. Regarding the number of players in the region and especially in the MEP discussions, the existence of large number of players negatively affected the cooperation scenarios because of the vast varieties of interests that many of them were conflicting in nature. Considering the other examples of interstate cooperation in the Caspian Sea region on the issue of Caspian oil and related issues (i.e. Russia-Kazakhstan pipeline deal with Chevron oil, Russia-Turkmenistan gas deal, Turkmenistan-Iran oil swaps, Russia-Turkey Blue Stream Project), we could say that the large number of players did not contribute to cooperation rather it negatively affected the outcome and led to competition as it became more and more difficult to reach a compromise among so many divergent policies and interests especially over a single route pushed mainly by the US and Turkey.

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<sup>9</sup> Jervis, "Cooperation under the Security Dilemma," 167–214.

While Russia favored a northern route, Iran insisted on the profitability of the southern direction for the Caspian oil. Turkey and the United States, on the other hand, supported a western route, whereas the oil companies wanted to choose among the shortest and the cheapest option. In such an environment, where we have multiple actors interacting with fundamentally different and conflicting interests, the cooperation among the actors and development of the Caspian oil resources has been quite slow to emerge. Yet, considering the Russian and Iranian reservations, construction of Baku-Ceyhan years after its conception, we may conclude that the cooperation on the MEP has not been achieved the way it was planned. One of the issues that complicated the interstate relationship in the transcaspian region is the competition for political control and influence in the region. Regional and external powers have long been competing with each other over the control of the region and maintaining a sphere of influence.

Russia is one of the countries that has viewed most of the issues in the region from a geopolitical perspective. Other than the economic gain and prosperity, maintaining a Russian control in the Caspian region has shaped the Russian policy formulations toward the affairs of the Caspian region. Alongside with Russia, the US, Turkey and Iran also competed for geopolitical supremacy in the region. While small states of the Caspian littoral states mainly concerned about the economics of the oil development and independence for their underdeveloped economies, the regional and external powers focused on the geopolitical aspects of the regional issues. Turkey, alongside with the US fought against an Iranian and also a Russian drive for domination in the region. The fight for regional supremacy has complicated the Caspian oil development in several ways.



First, the geopolitical rivalry has made the resolution of the Caspian affairs much more difficult because the countries fighting for regional influence started viewing the Caspian affairs from a broader perspective rather than treating it merely an issue related to the development of oil reserves in the Caspian region. The clash between Iran and the United States is a great example to this. For the United States it was never about excluding Iran as a Caspian region country from the oil business but dealing with Iran from a broader historical perspective. The long-lasting animosity between Iran and the United States reflected itself in the affairs of the Caspian region. The persistent U.S. attitude towards Iran and the decision to exclude it from any oil business in the Caspian Sea is an indication of a broader controversy between these two nations. The U.S. policy of containment of Iran continued in the north and the United States pressured the former Soviet Republics not to consider Iran as a partner in the oil deals.

The Iranian moves in the Caspian Sea should also be viewed from that angle. Iran for long tried to break the alliance between the US, oil companies and the littoral states with different proposals for the transportation of Caspian oil through Iran. The Iranian policy in the legal status of the Caspian Sea also reflects a broader Iranian engagement in the region, as it is also true for the pipeline negotiations. Preventing the achievement of a functioning oil industry in the Caspian Sea and also the establishment of friendly ties between the littoral states of the Caspian Sea and the United States has always been in Iranian interest. Iran already feels contained by its eternal enemy on many flanks. The United States has a strong hold in the Middle East, Turkey and Afghanistan. Establishment of a strong American presence in Azerbaijan and Turkmenistan was perceived as a big threat to Iran. Under these conditions, we may better understand the

moves made by the Iranian governments to disrupt the development of a U.S. alliance in the Caspian Sea region. It may also shed light to the recent Iranian involvement in Iraq. Iran may resort to certain measures in Iraq to prevent the establishment of a strong US hold in the country.<sup>10</sup>

The U.S. and the Russian policies in the Caspian could also be viewed from the same perspective. Russia feels pressured by the advance of western powers in Europe. The Expansion of NATO in Eastern Europe and the loosening of the old republics one by one on all sides puts Russia in a tough situation. Feeling that the United States is advancing on Russia on all sides, Russia tried to increase its presence in the Caspian region. It has never been all about pipelines or sharing of the Caspian Sea on certain criteria, but it had a lot to do with the maintenance of Russian influence in the region. Russia was not concerned too much about gaining more shares in the Caspian Sea but these issues have served as a tool for Russia to use against its rivals, the United States and against its close allies in the region.

The impact of the geopolitical rivalry in the region has been seen clearly over the negotiations for the construction of pipelines. The rise of competition for control and influence badly affected the development of Caspian oil reserves. It has especially slowed down the investments and mass production of oil as planned at the beginning. The construction of Baku-Ceyhan pipeline is an example to this, that it took more than a decade to complete a project that has initially been planned to be finished within a few year.

Among the other factors that contributed to the slow development of oil industry in the Caspian region is the military conflicts and wars in the Caspian region. These wars

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<sup>10</sup> David Stout, "Pentagon Blames Iran for Bombs Used in Iraq Against U.S. Troops," February 15, 2007.

directly in some occasions indirectly affected the Caspian Sea oil. There were three major military conflicts in the Caspian region. The war between Nagorno-Karabakh (NK) Armenians and Azerbaijan did the most damage to the Caspian Sea oil development projects.<sup>11</sup> From the early days of the conflict, regional and external powers involved in the mediation efforts alongside with international institutions. The conflicts in the region had a potential to spread to the whole region with a massive refugee population that it created afterwards, leaving the war-torn countries in chaos.

As the people in the war zones fled to safe areas, the involvement of external powers became inevitable. The war between Azerbaijan and Armenia forced Russia, Turkey and Iran to involve in the settlement of disputes. Each party supporting another, finding a solution to the conflict took many years. The efforts of Minsk Group under OSCE have been rendered ineffective because of the Russian maneuvers. Russia, seeking to maintain a level of influence and control in the region, wanted to take the control of the issue at hand and at the same time to have a reputation in the region. External powers, including the United States, approached to the conflict from their own perspective. While it was a golden opportunity for Russia to establish further control in the region, the United States and Turkey favored the cessation of hostilities in order to start oil projects in the region.

As the interest of western oil companies increased in the Caspian Sea region, the U.S involvement in the regional conflicts gained momentum. The conflict in Chechnya and civil unrests in Georgia are also among the factors that contributed to the instability of the Transcaucas region. This has negatively affected the development of oil industry in the region. The Caspian states always needed western investment to start oil

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<sup>11</sup> The relevant details of these wars were covered in Chapter V.

production in the offshore oil wells of the Caspian Sea. For the foreign investment to flow into the region, stability had to be established. The oil companies had to wait long enough for the establishment of a secure and a stable environment. Only after the signing of the agreement between Azerbaijan and NK Armenians, brokered by Russia, oil companies started to invest in the Caspian Sea oil projects.<sup>12</sup>

As we indicated earlier, these wars also indirectly affected the prospects for development in the Caspian region. Limited amount of resources have been used up to finance these costly wars. These wars also left these countries in ruins and produced thousands of refugees, which eventually placed further burden on the respective governments. In addition to these, the resources used for the wars and for the reconstruction after these wars could have been used for the oil projects or other areas that needed government support to develop national economies.

The last independent variable studied in this dissertation is the role of international/ regional organizations (IOs) and institutional establishments in promoting peace and cooperation in the Caspian Sea region. Examination of the IOs in the region reveals that success or failure of IOs in promoting peace and interstate cooperation under the institutional framework was affected from varieties of factors, including geography and past experiences of the countries.

Scholars who study the role of international organizations in international politics would agree on the fact that the arguments and the findings are extremely diverse and to some extent confusing. It is related to the dynamic nature of the issue and the enormity of its scope. Geographical differences and past experiences of the member states in

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<sup>12</sup> The famous Contract of the Century, a production sharing agreement between Azerbaijan and a consortium of international oil companies 1994, signed after the agreement between Azerbaijan and Armenians to end the war.

international institutions might lead to different outcomes in terms of its success and failure in promoting peace and security.

Constructivists, Functionalists and Institutionalists argue that world politics is increasingly organized around international organizations and regimes. They also argue that these institutions foster interstate cooperation among the member states through providing a forum for discussion, increasing transparency and reducing transaction costs. The same theory also predicts a decline in the militarized conflicts with growing salience of non governmental organizations in international relations. While neoliberals subscribe to much of the arguments mentioned above, these claims have been contended by neorealist school. Unlike neoliberals, neorealists argue that international politics is still dominated by national interest considerations and the international institutions are the reflection of the world politics rather than being a decisive factor in it.<sup>13</sup>

Recent studies in the area focus more on the differences of international institutions in terms of their structure, homogeneity, member structure, issue areas and geography. The differences in these areas may very well affect the effectiveness of that particular institution.<sup>14</sup>

In the Caspian context, the success and or failure of the international and regional organizations (CIS, GUAM and OSCE in some occasions) depended on varieties of factors and at the same time suffered from numerous setbacks. One of the major issues that determined the final outcome with respect to the effectiveness of the international organizations in the Caspian region is the lack of commitment by the member states to the organizations. Boehmer, Gartzke and Nordstrom argue that IOs “can promote peace

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<sup>13</sup> For more on the literature on the subject see Chapter VI.

<sup>14</sup> Charles Boehmer, Eric Gartzke and Timothy Nordstrom, “Do Intergovernmental Organizations Promote Peace?” *World Politics* 57 (October 2004): 3–7.

but success depends on attributes present in only the most cohesive and institutionalized organizations.”<sup>15</sup>

The establishment of Commonwealth of Independent States by Russia and few other Slavic states and its eventual growth into a regional organization is an example for the lack of commitment which rendered the organization almost useless in serving its main functions; providing a framework for regional cooperation.

Behind these is the fear of Russia to use the organization for the re-establishment of Russian hegemony. In contrast, the CIS member states have long tried to gain a safe level of independence from Russia and acted very cautiously to common establishments.<sup>16</sup>

Apart from the lack of commitment, another reason that explains why institutionalization failed in the region and why existing institutions did not succeed in creating an environment conducive to cooperation is the inability of the Caspian and the Central Asian states to come up with a comprehensive set of rules and norms that regional states would agree to abide by in managing their differences. The lack of a unified approach on the management of the regional affairs and the split among member states in terms of their inclination towards the West or Russia centered alliance impeded the establishment of a strategy that would bring the regional states together. Beside these, the nature of the domestic politics in the Caspian states and the historical experience of these countries with each other and especially with Russia have precluded the emergence of an effective organization that could contribute to regional cooperation, leading way to a better interstate relationship in terms of achieving cooperation on the

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<sup>15</sup> Ibid., 7.

<sup>16</sup> For more details on how CIS functioned and eventually failed see Chapter VI.

development of Caspian oil industry. The success of IOs in promoting peace and friendly relations between Caspian states and external powers involved in the Caspian region have been very limited owing to varieties of factors indicated above. Compared to the areas where international institutions have produced positive outcomes in promoting interstate cooperation, the study of the Caspian region in terms of institutional structure reveals the existing differences that prevent the development of effective international institutions.

Institutionlists argue that international institutions can lead to cooperation because:

- International institutions can mitigate the effects of international anarchy
- They may help to improve exchange of information/ transparency therefore reduce the probability and desirability of defection
- They can increase the likelihood of cooperation by decreasing the incentives for defection.
- They can create an environment that actors may fear reputational costs.
- They can link issues and increase the chances of cooperation.<sup>17</sup>

In the Caspian context, however, the number of institutions should be seen very small compared to the other regions where the number of institutions and membership is high. Russett and Oneal see a positive correlation between membership in international institutions and peace among the member states.<sup>18</sup> As Barnett and Finnemore argue, once the institutions are established, they would develop and gain a personality of their own becoming an important mechanism in world politics and contributing to peace and

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<sup>17</sup> For more details on how these institutions help to the achievement of cooperation, see Keohane, *After Hegemony*.

<sup>18</sup> For an analysis of Kantian Peace: Democracy, Economic Interdependence and International Institutions, see Russett and Oneal, *Triangulating Peace*, 157–96.

security.<sup>19</sup> Looking at the issue from this perspective, we could assert that the interstate relationship in the Caspian region could have been more peaceful if the institutions in the region have had a chance to develop. This would have led to more cooperation among the Caspian states over the development of oil industry.

More than a decade after the investments started pouring into the Caspian region, little progress has been achieved compared to the expectations and proposals put forward by the governments of the Caspian states. This is not to ignore the partial success made in certain areas, including the resolution of the discussions pertaining to the legal status of the Caspian Sea through bilateral agreements in the northern parts of the sea, excluding Iran, and the completion of the huge Baku-Ceyhan pipeline project and finally, the Caspian Pipeline Consortium that carries most of the Kazakh oil production to Novorossiysk; but to highlight the lack of cooperation among the regional and external powers in the Caspian Sea compared to what could have been achieved in such a long period of time. As it has been shown in this dissertation, the realist/neorealist paradigm proved to have more explanatory power in the Transcaucasus region while the neoliberal explanation of interstate relationship in the Caspian context remained very thin. If history is any guide, the only thing that does not change is the change itself. This dissertation has covered the developments related to the nature of the interstate relationship in the Caspian Sea region up to date.<sup>20</sup> What exactly will happen in the coming years remains to be seen. As we all accept, history is full of surprises for those who study and also for those who live in it.<sup>21</sup>

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<sup>19</sup> Michael Barnett and Martha Finnemore, *Rules for the World: International Organizations in Global Politics* (Ithaca: Cornell University Press, 2004).

<sup>20</sup> February 2007.

<sup>21</sup> As it is the case with the unexpected collapse of the Soviet Union.



However, based on the studies of the past and the current developments, it is difficult to expect a dramatic change towards a more peaceful interstate relationship in the Caspian Sea region, as most of the dividing issues remain unresolved. Looking at the future of the oil developments in the region, it should be safe to say that, the progress in the oil industry will largely remain dependent on the quality of interstate relationship in the region, while the global trends in oil industry will certainly play a role in determining the direction of the developments in the Caspian Sea region.

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