
CASPIAN SEA OIL: THE ROLE OF PRIVATE CORPORATIONS

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Globalization and economic integration seem to be the master words of the United States' foreign policy since the end of the Cold War. By contrast Russian diplomats and political leaders still think in terms of confrontation. Six years after the collapse of the Soviet Union, Russia still considers itself a hegemonic superpower surrounded by hostility. In a policy paper published by the Russian Foreign Ministry in early 1997, experts stated that the two top priorities should be "to consolidate Russia's role as a great power and one of the centers of the multi-polar world that is taking shape" and "to defend Russia's territorial integrity."¹ Interestingly, Russia's integration into the world's changing economy comes last among the short-term objectives of Russian diplomacy. Although they emphasize the need to "utilize existing opportunities for cooperation [with other powers]," those experts also urge diplomats "to diversify Russia's foreign policy by consolidating relations with the states of the Asian-Pacific region, the Arab world and Latin America." Those lines are reminiscent of the Soviet era when Moscow was eager to counterbalance Western influence in the world. This, along with Russia's specific decision-making mechanisms, explains why the presence of Russian business in the Caspian region remains well below what one should have expected given the historical and geographical links between Moscow and the New Independent States (NIS) of Azerbaijan, Turkmenistan and Kazakhstan. This article will show how the Kremlin's policy has, until now, prevented the successful development of Russian private energy business in the Caspian basin. The second section will demonstrate how the U.S. administration has pushed for the interests of major American oil corporations in the region and shows to what extent private business has influenced U.S. foreign policy toward the oil-rich NIS of the former Soviet Union (FSU).

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Lost Opportunities: Russia's Foreign Policy Toward the Caspian States

The main trends of Russia's foreign policy are rooted in its military doctrine adopted in 1993. Although it claims that Russia no longer regards any state to be its enemy, this document defines the former Soviet borders as a continuing zone of security for Russia. As stated recently by one Russian foreign policy expert, "the external borders of Central Asia are, in fact, also a southern border of Russia."²

Since 1991, however, leading western oil companies have embarked on a lucrative collaboration with the hydrocarbon-rich republics along Russia's southern borders, namely, Azerbaijan, Kazakhstan and Turkmenistan³ and, to a lesser extent, Georgia.⁴ Despite its formal alliance with Iran and Armenia, Russia seems isolated. Not only are most of the production-sharing agreements signed over the past few years between Moscow and foreign oil companies in a stalemate, but the Russian oil producers—with the exception of Lukoil, the country's biggest—are surprisingly absent from the Caspian region. Former Russian Fuel and Energy Minister, Boris Nemtsov recently acknowledged that his country had "missed an opportunity and allowed the United States to take the lead in joint exploration of the Caspian Sea area with Azerbaijan."⁵ For pro-nationalist commentators, it is clear that Russia has already lost most of its assets in the region. Andronik Migranyan, a former advisor to Soviet President Mikhail Gorbachev, angrily complains that the "threefold defeat" suffered by his country dates back to September 1994.⁶ At that time, a consortium of nine companies, known as the Azerbaijan International Operating Company (AIOC), won the so-called "deal of the century," a \$7.14 billion contract to develop the Azeri and Chirag offshore oil deposits in the Azeri sector of the Caspian Sea.⁷ Migranyan argues:

First, [Moscow] had not managed to strengthen the political forces in Azerbaijan that looked to Russia. Second, despite [our] Foreign Ministry's ongoing efforts to cast doubt on the legal standing of the contracts that had been concluded, citing the uncertainty over the Caspian Sea's legal status, the participation of Lukoil in these super-projects had the effect of downgrading Russia's official position over the status of the Caspian. Third, it had not proven possible to prevent the very real arrival in Azerbaijan of some of the most powerful western companies with large sums of money. Naturally, this could only weaken Russia's role and influence in the region, and was later followed by other, equally dramatic, setbacks for Russia in the area. Russia lost the long-term battle for the oil pipelines.⁸

Regarding Russia's foreign policy toward the Caspian area, Azerbaijan holds a key position. Because it is the NIS with the most developed economic relations with Western Europe and the United States. Oil projects in Azerbaijan

total between \$28 billion and \$30 billion and involve 20 companies from 12 countries. Russia does not consider the presence of foreign capital in the region as a threat to its own oil companies, but rather as a plague comparable to the "Western cultural and ideological expansion in Russia."⁹ Consequently, "[Moscow] is obliged to take appropriate actions to oppose attempts to elbow out Russia and to lock it within its own borders."¹⁰ Russia also fears that the emergence of a strong Shiite Muslim Azerbaijan contiguous to Turkey might profit Ankara and consequently diminish Russia's already ailing influence in Transcaucasus and Central Asia.

It has generally been thought that Russia had pushed for the interests of its private oil companies in the Caspian region, particularly its biggest group, Lukoil.¹¹ Some specialists, such as Yevgeny Khartukov, general director of the International Center for Petroleum Business Studies in Moscow, even speculate that the company should be considered as a "diplomatic flagship for the rest of the Russian oil industry."¹² However, it seems that Lukoil owes its relative success in the FSU not to the Russian government, but to itself. The company has stakes in several consortia in Azerbaijan and Kazakhstan,¹³ and like its Western counterparts, looks for the most promising and accessible profits. Already in 1994, its chairman Vagit Alekperov, a native Azerbaijani, said he would prefer developing foreign oil deposits over working in Russia. Four years later, he said that he found it "more difficult" to work in the FSU, and in Russia particularly, than in other countries.¹⁴

Unlike their American and European counterparts, the Russian Foreign Ministry never fully supported the Russian oil companies that tried to establish businesses in the Caspian area. One could argue that Moscow's political leadership is perhaps pinning its hopes on the so-called "pipelines option"—a view held by only a handful of officials, notably from the Fuel and Energy Ministry. Their point is that Caspian oil is worth nothing until it reaches world markets; or, to put it differently, that the exporters of the crude have as much influence, if not more, than producers. "We need to win the right to transport Caspian oil against international competition. We have won the first round with early Azeri oil passing through Russia, but that is only the beginning," Nemtsov said recently.¹⁵ Nevertheless, the Kremlin's policy toward its neighbors clearly goes in the opposite direction. It pushes the producing countries to bypass Russia while pumping their hydrocarbon resources to international markets.

Surprisingly, the Russian diplomats do not consider Caspian hydrocarbon

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reserves as a possible source of revenues for the country's ailing economy.¹⁶ A possible explanation is that, in the mind of its political leaders, Russia has enough oil and gas reserves in its own territory. Not only is Russia self-sufficient in terms of oil and gas, but it also sells a good part of its output to foreign countries.¹⁷ According to Emil Pain, one of President Boris Yeltsin's advisors, the importance of oil in the conflicting relations between Moscow and Baku should not be exaggerated because the volume of oil production within the Russian Federation far exceeds what the country could receive from

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participating in the development of the Caspian deposits of the Azerbaijan sector. "Azerbaijan is much more important to Russia as a market than as an oil well," he said recently.¹⁸

In 1994, Russia's Foreign Ministry suddenly raised the Caspian Sea's legal issue when Lukoil, already granted a 10 percent stake in the Chirag and Azeri projects, was negotiating the right to develop two other offshore deposits located in Azerbaijan's sector.¹⁹ In any case, the diplomats' claim came at a moment when the Azeri parliament still had to ratify the Chirag-Azeri deal. The move took Lukoil's leadership, backed by the Fuel and Energy Ministry, by surprise. Russian Prime Minister Viktor Chernomyrdin said the row between the two ministries was a mere "lack of coordination."²⁰ In July 1997, Lukoil, Rosneft and Azerbaijan's national oil group, SOCAR, signed a memorandum of understanding, which gave the two Russian companies the right to enter into a production-sharing agreement to explore and develop Kyapaz, an oilfield claimed by both Azerbaijan and Turkmenistan.²¹ But within a month, Rosneft announced that it would not participate in the deal and, on August 5, Lukoil also withdrew from the competition. Two days later, Yeltsin annulled the contract after a meeting with Turkmen President Saparmurad Niyazov. The move was obviously motivated by the Kremlin's willingness to gain Ashgabat's support in its dispute with Azerbaijan. In complete disarray, Lukoil said it was neither aware of such a decision nor of a Foreign Ministry's statement asserting that it had promised not to start any new projects in the Caspian without prior consultations with Russia's political leadership.²² Perhaps by way of a consolation prize, Lukoil later won a tender to develop oil reserves off the Russian coast of the Caspian Sea with possible recoverable reserves of 150 to 600 million tons.²³

Unlike other countries where diplomats lobby foreign governments on behalf of companies willing to expand their activities abroad, Russia's private business still has to abide by what the Kremlin considers to be its strategic interests or "*raison d'Etat*." In 1997, the newly appointed Russian ambassador to the Czech Republic Nikolai Ryabov, former chairman of the Central Electoral Commission, warned that Moscow would reduce its natural gas deliver-

ies to Prague if the country became a NATO member. As a result, the Czechs immediately decided to accelerate the conclusion of a gas deal with Norway, thus leaving Russian companies out in the cold.

"It is not the Russian government that defends the interests of the national companies on foreign markets but, on the contrary, the big firms that often make the life of the diplomats easier," recently complained one Russian oil specialist.²⁴ Alekperov contends that his company and other AIOC members insisted that the "early oil" produced in the Azeri sector of the Caspian Sea should be shipped through Russia and not through Turkey.²⁵ Commenting on the strong support given to Iraq by Moscow in the present Gulf crisis, two journalists came to the following conclusion: "Instead of dealing with specific projects [oil or gas], our Foreign Ministry is still playing the geopolitical games of a decade ago, as if Russia was still a superpower. As a rule, its victories in this sphere are dubious and the losses suffered by Russian companies are considerable."²⁶

To listen to Russian diplomats, Russia's policy in the region already bore some fruits by frightening foreign investors. According to them, foreign companies are reluctant to invest in the region while the Caspian Sea legal issue remains unsettled. They claim that the actual investment made under the first three international contracts signed by Azerbaijan amount to a mere \$800 million instead of the projected \$14 billion. They also say that the volume of capital invested in Kazakhstan and Azerbaijan constitutes approximately 20 percent of the level planned for 1996 and that, after the recent Turkmen-Azerbaijani dispute over the Kyapaz field, "investors are bound to become even more restrained."²⁷

The Search for Stability: U.S. Foreign Policy Toward the Caspian

Dozens of U.S. companies have already invested money in oil projects in Central Asia and the Transcaucasus. Major American oil corporations showed interest in the vast Caspian hydrocarbon reserves immediately after the collapse of the Soviet Union. In Azerbaijan, negotiations over the so-called AIOC "deal of the century" started under President Ayaz Mutalibov in 1992, and continued under Abulfaz Elchibey, his pro-Turkish, resolutely anti-Russian, successor. Elchibey was ousted in 1993 by a coup led by Suret Huseinov, a former businessman who had turned into a military chief. The same year, the latter was eventually forced to seek refuge in Russia by the country's new leader, former first secretary of Azerbaijan and Politburo member Heydar Aliyev. It was Aliyev who eventually signed the contract with AIOC in September 1994.

Perhaps because it was anxious not to alienate Moscow at a time when the U.S.-Russian honeymoon still seemed possible, the White House did not immediately react. But the Clinton administration is today strongly committed to backing up the interests of U.S. companies working in the region as long as this support does not interfere with its domestic and international constraints.

This search for compromise sometimes gives the impression of a contradictory and chaotic foreign policy.²⁸

The Clinton administration says the Transcaucasus and Central Asia are regions of "vital interests."²⁹ As James F. Collins, special advisor to the Secretary for the NIS stated nearly two years ago, "the United States will stay involved in the Caucasus because American interests call for an engagement." "We will continue our efforts to assist and encourage the states in the region and their neighbors to find a path toward constructive, cooperative development that will serve the interests of the young states of this ancient region as well as those of its neighbors," he added.³⁰

The United States pursues a twofold objective in the region. On the one hand, Washington is keen to protect the billions of dollars invested in the region by U.S. companies and to defend their interests by making sure that the oil and gas extracted in the region will sooner or later reach the world markets. On the other hand, it is anxious to find an alternative to the volatile Middle East for its own energy supplies. Therefore, it says the Caspian basin "is vital to assuring [the world's] energy security"³¹ and wants export routes to be as diversified as possible.³² Speaking at a Caspian pipelines conference in Washington last November, U.S. Energy Secretary Federico Peña said his country favored a proposed route from Baku, the Azerbaijan capital, to the Georgian Black Sea port of Supsa with a connecting link down through Turkey to Ceyhan on the Mediterranean Sea. Peña said the U.S. supported the idea of multiple pipelines, including a link between Baku and the Russian Black Sea port of Novorossisk put into service a few days earlier.³³ But he stressed that the Clinton administration would definitely prefer the Baku-Ceyhan section as the main export corridor.³⁴ It has to be noted that this is also the preferred option for the U.S. companies working in Azerbaijan. "This route, as far as Amoco is concerned, is the ideal route, if it can be made commercially viable, and we are consulting with all the parties concerned to try and find ways to bring that about," Charles Pitman, chairman and president of Amoco-Eurasian Petroleum Company stated recently.³⁵

In 1993, the predecessor to Aliyev agreed to let Azerbaijan's oil output flow to the Turkish port of Ceyhan. But the U.S. administration, at the time strongly committed to backing up Yeltsin's regime, did not immediately support this option. On the contrary, it seemed to have a marked preference for the Baku-Novorossisk route. It is only after the war in the breakaway republic of Chechnya, which emphasized Russia's instability, that Washington gave its blessing to the Turkish route.³⁶ Simultaneously, the White House took a harder stance toward Iran, another proposed route for the Azeri oil.

In order to achieve this goal, the United States needs peace and stability in the region, notably in the highly explosive Transcaucasus. For Washington, the oil revenue that the Caspian countries should expect "is like a Marshall Plan that could develop all the states of Central Asia, Turkey and Russia, but without costing U.S. taxpayers a dime."³⁷ As Deputy Secretary James Talbott recently said: "If economic and political reform in the countries of the Caucasus and Central Asia does not succeed—if internal and cross-border conflicts

simmer and flare—the region could become a breeding ground for terrorism, a hotbed of religious and political extremism, and a battleground for outright war. It would matter profoundly to the United States if that were to happen in an area that sits on as much as 200 billion barrels of oil. That is yet another reason why conflict resolution must be job number one for U.S. policy in the region: it is both a prerequisite for and an accompaniment to energy development.”³⁸

Along with Russia and France, the United States is a member of the so-called Minsk Group which, under the aegis of the Organization for Security and Cooperation in Europe (OSCE), has labored to find a peaceful solution to the conflict between Azerbaijan and its ethnic Armenian Nagorno-Karabakh western enclave. Despite Elchibey's promises to gain a swift military victory against the Armenian separatists, the Azerbaijani national army suffered huge losses in 1992-1993. By that time, Armenian forces, well-armed and well-equipped by Russia, had occupied up to 20 percent of Azerbaijan's territory. Washington now insists that Armenian troops should withdraw from Azerbaijan in return for greater autonomy. The proposed U.S. plan also sees the deployment of international peacekeeping forces along the Lachin corridor, which links Karabakh to Armenia. The Karabakh “government” in Stepanakert rejected the plan. Armenian President Levon Ter-Petrosyan, who eventually agreed to this solution, was forced to resign on February 3, 1998. Led by Armenian Prime Minister Robert Kocharyan, the former “President” of Nagorno-Karabakh appointed in March 1997, Ter-Petrosyan's opponents accused him of pursuing a defeatist policy that endangered the security of both Armenia and Nagorno-Karabakh. The U.S. reacted calmly to the crisis. President Clinton even said that Washington would appropriate funds to Armenia and Russia regardless of a Congressional resolution which restricts assistance to NIS countries that infringe upon the territorial integrity or national sovereignty of any other former Soviet republic.³⁹ At the time, State Department officials said they hoped the new Armenian leadership would have a “broader legitimacy,” so that it would help boost the peace process.⁴⁰

Regardless of the human rights situation in Azerbaijan, Washington strongly supports Aliyev's regime.⁴¹ But the U.S. administration, which has committed more than \$22 billion in overall assistance to the eight states of the Transcaucasus and Central Asia, sees its ability to provide assistance to Azerbaijan limited by section 907 of the Freedom Support Act. This law, adopted in 1992 under pressure from the Armenian lobby in Washington, was initially meant to help Yerevan overcome Azerbaijan's embargo during the war in Nagorno-Karabakh. Now, say U.S. diplomats, times have changed and Section 907 is

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no longer necessary "because it has made it impossible for [the United States] to provide the Azerbaijanis with assistance on elections, economic reforms, energy development, and in other areas where it is in our national interest to do so."⁴² For U.S. companies, repealing Section 907 is seen as an essential step to boost Washington's interests in the region. Providing Aliev's regime with financial assistance would help consolidate "Azerbaijan's prosperous secular government," thus protecting U.S. investments in this country, they say.⁴³ Although U.S. officials agree that this law is "an unfortunate piece of legislation," they admit that "there is a lot that U.S. policy can do, even with 907."⁴⁴ For the time being, Washington is using international financial institutions to

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leverage its economic assistance to Baku. In December last year, the International Monetary Fund (IMF) approved a loan worth \$64 million to support economic reforms in Azerbaijan.

Although Washington's policy meets the interests of the major oil companies on most of the issues, there is still one unresolved clash of interests: Iran. Despite growing pressures from U.S. oil companies to lift the embargo upon Tehran, the Clinton administration is still reluctant to soften its stance toward the Iranian regime. Although the moderate Sayd Mohammad Khatami won the presidential elections in May 1997, officials from the State Department insist that the Iran-Libya Sanctions Act (ILSA), adopted in 1996, is still in force. Officially, Washington views both states as supporters of international terrorism. But the real reason behind U.S.-Iranian policy is that the White House does not wish to see Iran turn into a regional power

that could pose a potential nuclear threat to Israel and compete with Turkey on the oil market. The ILSA officially requires Washington to take actions against non-U.S. firms that invest \$20 million or more a year in Iran's oil and gas sector. But this is not the first U.S. law to impose economic sanctions upon Iran. In January 1984, the Foreign Assistance Act severely limited business contacts between American and Iranian companies. For this reason, U.S. Conoco was forced to give up a multi-million dollar oil project with Tehran in January 1995, opening the way for non-American companies to negotiate with Iran. Senators then started lobbying the Congress to extend commercial restrictions to non-U.S. firms and vote a new legislation based on extra-territoriality.

When it was adopted, the ILSA clearly met the interests of U.S. companies. Now things are quite different. Iran wants to be the main export corridor for Central Asian oil and gas. Turkmenistan and Kazakhstan, as well as foreign investors in the region, see Iran as the shortest and cheapest route to Europe and Asia.⁴⁵ According to some experts, Caspian hydrocarbon reserves could

be brought to those markets at one-third of the cost in one-third of the project time of any alternative route, including Russia.⁴⁶ During a recent trip to Washington, Kazakh President Nursultan Nazarbayev said he was still considering plans to export oil by pipeline to Iranian ports of the Persian Gulf.⁴⁷ Some U.S. politicians are trying to impress on the Clinton administration that the Iranian embargo is no longer profitable and insist that the ILSA should be repealed. "It is not in America's interest to perpetuate U.S.-Iranian hostility. Any eventual reconciliation should be based on both countries' recognition of their mutual strategic interest in stabilizing Iran's volatile regional environment. A strong, even religiously motivated—but not fanatically anti-Western—Iran is still in the U.S. interest. American long-range interests in Eurasia would be better served by abandoning the existing U.S. objections to closer Turkish-Iranian economic cooperation, especially in the construction of new pipelines from Azerbaijan and Turkmenistan," wrote Zbigniew Brzezinski, former Assistant for National Security Affairs to U.S. President Jimmy Carter.⁴⁸

Even diplomats agree that Washington's stance concerning Tehran is now an obstacle to national interests. "If you're asking me whether our Iran policy ties us down in Central Asia, yes it does," one U.S. official admitted recently.⁴⁹ Tehran is keen to develop its cooperation with other countries. In 1996, Iran and Turkey signed a \$23 million contract for 23 years of gas supplies. In September 1997, France's Total, Russia's Gazprom and Malaysia's Petronas Dagang Bhd signed a \$2 billion deal to develop the vast natural gas reserves of the South Pars deposit in southern Iran. Officials from Tehran announced recently that more oil and gas fields would be offered to Western companies and made it clear that the national law restricting foreign energy operators would soon be amended. In December last year, the Royal Dutch/Shell group got the go-ahead to launch a feasibility study on a projected 3,000 km (1,875-mile) pipeline running from Turkmenistan's Korpedzhe gas field to Turkey with a possible extension to the northeastern Iranian town of Kord Kuy.⁵⁰

Will the United States adopt a softer stance on Iran and, consequently, meet the long-term interests of major oil MNC's working in the Caspian basin? The latest official statements tend to suggest the contrary. Attending the World Economic Forum in Davos, Switzerland in January, Commerce Secretary William Daley repeated that any trans-Caspian energy deals should exclude Iran.⁵¹ "We oppose transportation [of Caspian] oil through Iran. It is bad for us and for other littoral states. We do not want to see Iran acquire a dominant position on the world energy market," a deputy to Stephen Sestanovich, U.S. ambassador at large to the CIS states, stated a few days later.⁵²

The problem is that the United States cannot really bar European and Asian

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companies from cooperating with Iran's energy sector. The Clinton administration failed to adopt sanctions on Shell after the Anglo-Dutch company announced it would take part in the Turkmenistan-Turkey-Iran pipeline project. The reason is probably that, although Washington is still officially opposed to Iran, it is also keen to loosen Russia's energy grip on the NIS states.⁵³ According to one top Shell executive, the Iran route is not likely to stir controversy within the U.S. government. "I don't think any government, including the United States, wants to stop Turkmenistan gas from reaching the market."⁵⁴

Although the U.S. government has criticized the 1996 gas deal between Iran and Turkey, one of its NATO allies, it did not prevent the two countries from laying pipelines on their territories to finalize the project. In February, Secretary of State Madeleine Albright said the White House would soon decide whether sanctions should be imposed on Total, Gazprom and Petronas.⁵⁵ Undersecretary of State Stuart Eizenstat, who is managing the issue on her behalf, later seemed to play down those first comments. The question of whether any penalties should be imposed "remains under debate" within the administration, he said at a time when the White House was seeking European support for its tough stance on Iraq.⁵⁶ In the meantime, European and Asian oil companies are taking advantage of the absence of the U.S. major oil companies on the Iranian market to negotiate lucrative projects with Tehran. One could say, along with one top U.S. oil executive, that Washington's policy toward Iran puts American companies "in a distinct competitive disadvantage in those parts of the world where energy companies are allowed."⁵⁷

Conclusion

Unlike their Russian counterparts, which have to abide by the neo-imperial trend of Kremlin diplomacy, private oil companies in the United States have a certain degree of influence in Washington.⁵⁸ Even if this influence should not be exaggerated, it remains that pressures to lift the embargo on Iran already brought some results. Despite their strong anti-Iranian rhetoric, U.S. officials seem to leave the door open for a discreet dialogue with Tehran.⁵⁹ The White House and the State Department are probably aware that refusing dialogue would profit Khatami's conservative foes inside the Iranian leadership. It would also reinforce the Russian-Iranian alliance and, therefore, stimulate the nuclear cooperation between Moscow and Tehran. Finally, it would deprive U.S. private oil companies of another lucrative market in the region.

Looking retrospectively at Russia's foreign policy toward the Caspian states, one is surprised to note that interests of private oil companies, by nature prone to look for new deposits, have regularly clashed with those of the Foreign Ministry and the political leadership, for whom oil development comes after geopolitical necessity. Russia sees itself as a threatened country. In order to counter the expansion of western capital in the Caspian region, Moscow has built up a fragile system of tactical alliances in which Iran plays a key role. In this system, oil is not considered as an end by the Kremlin's leadership, but merely as a means to keep the former Soviet republics under its influence. In

other terms, oil and private corporations are only a tool of Russia's foreign policy toward its southern neighbors.

Russian expansionism in the eighteenth and nineteenth centuries was made possible, in part, because it relied on a strong state in which all administrations acted together. In today's Russia, the state is weak. Each ministry, each administration, each region, almost each individual has its own agenda. Pain recently said that in 1993-1994, "different groups in [the Russian leadership] were pursuing diverging, even opposing policies in the [Caspian] region."⁶⁰ Now, he said, things are changing and those groups act "in concord." Whether Russia will be integrated into the global energy networks that are taking shape or will be left out depends not only on external contingencies, but also, to a large extent, on internal factors.

Notes

1. "Foreign Policy of Russia in 1996 and 1997," *International Affairs* 2 (1997).
2. Sergei Razov, "New Developments in Central Asia," *International Affairs* 3 (1997).
3. Hydrocarbons reserves in the Caspian Sea region are generally estimated at about 85 billion barrels of oil equivalent (11.6 billion tons), although some experts think that an additional 100 billion barrels (13.6 billion tons) lay there. Semi-official estimates of the basin's potential recoverable reserves peg Kazakhstan's offshore reserves at 32 billion barrels of oil equivalent (4.5 billion tons). Azerbaijan follows with 28 billion barrels (3.8 billion tons), Russia has about 14 billion barrels (1.9 billion tons) and Turkmenistan 11 billion (1.5 billion tons). Iran, the only non-post-Soviet state in the region, holds oil reserves of 93 billion barrels (12.3 billion tons), is the world's fourth biggest, and in terms of output ranks third, in the Organization of the Petroleum exporting Countries (OPEC).
4. Georgia has very little oil and gas reserves but it is about to become one of the main transit corridors for Caspian hydrocarbons.
5. *Xinhua English Newswire*, November 17, 1997. Nemtsov was removed from his post of Fuel and Energy Minister by President Boris Yeltsin in October 1997 and replaced by his first deputy, Sergei Kiriyenko.
6. Andronik Migranyan, "SNG: Nachalo ili konets istorii," *Nezavisimaya Gazeta*, March 26, 1997. Quoted in Index on Censorship 26:4 (1997). After 1991, Migranyan was a member of Yeltsin's presidential council before joining the team of Konstantin Zatulin, a nationalist-oriented MP of the Russian Duma, the Lower House of the parliament.
7. A third deposit—Guneshli—was later included in the deal. AIOC now comprises 11 companies: Azerbaijan's national oil group SOCAR, British Petroleum, Norway's Den Norske Stats Oljeselskap (Statoil), U.S. Union Oil Company of California (Unocal), Pennzoil and Exxon, Japan's Itochu, Britain's Ramco, Turkish Petroleum, Saudi Arabia's Delta Nimir and Russia's Lukoil.
8. Andronik Migranyan.
9. Anatoli Gusher, "On Russian-Iranian Relations," *International Affairs* 2 (1997).
10. A. Zaitsev, "Russia and Transcaucasia," *International Affairs* 5 (1997).
11. We voluntarily left Gazprom out of this study. First, because its relations with the political leadership, notably with Prime Minister Viktor Chernomyrdin, are too close to consider Russia's gas monopoly—in which the state still holds a 35 percent stake—as a private and independent. Second, because it holds in fact the rank of a ministry and, therefore, should be considered as a state institution.
12. Quoted in Reuters, December 15, 1997

13. Besides the AIOC deal, the company created a joint venture with Italy's Agip to develop the Karabakh oilfield in Azerbaijan with recoverable reserves estimated at 85-120 million tons. It also acquired a 10 percent stake in a consortium to develop the Shakh-Deniz deposit. In July 1997, Lukoil and SOCAR signed an agreement on the prospecting and production-sharing development of the Azerbaijani D-222 (Yalama) structure in the Caspian Sea. It has decided to cede its 60 percent share in the project to Lukarco, its joint-venture with U.S. Atlantic Richfield Company. In Kazakhstan, Lukoil is associated with Agip, British Gas and U.S. Texaco to explore and develop the giant Karachaganak natural gas deposit. It also has a 50 percent stake in the Kumkol deposit.
14. Dmitri Makarov, Igor Morzharetto, "Neftyanoi "sprut" Vagit Alekperov," *Argumenty i Fakty* 50, (December 1997). The company, which has already started developing a network of gas stations in the United States, is now considering oil exploration projects in Algeria and Libya. *Segodnya*, 12 February 1998.
15. Reuters, December 15, 1997
16. One of the very few exceptions is Feliks Kovalyov, "Caspian Oil: Russian Interests," *International Affairs* 3 (1997). It should be noted therefore that, like Nemtsov, he sees Moscow's economic interests in pumping foreign oil through Russian territory, not in participating in the development of Caspian oil reserves.
17. In 1996, Russia produced about 282 million tons (5.9 million bpd) of crude oil, of which 106 million tons were meant for export inside and outside the CIS.
18. Turan news agency (Azerbaijan), quoted in RFE/RL, September 25, 1997.
19. The ministry claims that the treaty concluded between Russia and Persia in 1921 and between the Soviet Union and Iran in 1940 is still in force. According to these documents the Caspian Sea was, until 1991, divided into two zones, one Soviet and one Iranian. Arguing that the sea should be considered as a lake and not as a sea—or, as the Azerbaijanis put it—a series of closed water reservoirs—Moscow says that resource development of the Caspian should be the responsibility of all riparian states and, therefore, should be developed in common. Supported by Kazakhstan, Azerbaijan objects that the treaties should not be binding on states that did not sign it. Although it seems to back Moscow's stance, Turkmenistan also considers the Caspian waters as a sea. But it disagrees with Azerbaijan on where the dividing lines between national sectors fall.
20. Reuters, October 12, 1994.
21. The Kyapaz field—or Serdar, in Turkmen—is located 104 km (65 miles) from Turkmenistan's coast and 184 km (115 miles) from Azerbaijan's littoral.
22. Sergei Sklyarov, "Chorny peredel Kaspiya," *Expert* N°30, August 11, 1997
23. Yukos, another Russian private company that had just acquired a majority stake in Eastern Oil Company, immediately questioned the decision. Russian General Prosecutor Yuri Skuratov later stated that the deal signed by Lukoil was "unlawful" because a 1975 decision by the then RSFSR government to make the northern Caspian a protected nature reserve was still in force. See British Broadcasting Corporation, 3 February 1998.
24. Rustam Narzikulov, "Gosdep SshA ugrozhayet Gazpromu," *Nezavisimaya Gazeta*, October 17, 1997.
25. Dmitri Makarov, Igor Morzharetto.
26. Gennadi Susoyev, Aleksandr Shumilin, "Ministerstvo strannykh del," *Kommersant Weekly*, December 2, 1997.
27. Feliks Kovalyov, "Caspian Oil: Russian Interests."
28. See Olivier Roy, "Faut-il diaboliser l'Iran?," *Politique Internationale* 78 (Winter 1997-1998).
29. See James Talbott, "A Farewell to Flashman: American Policy in the Caucasus and Central Asia," Address at the Johns Hopkins School of Advanced International Stud-

ies, Baltimore, Maryland, July 21, 1997, *U.S. Department of State Dispatch*, Vol. 8, No. 6, July 1997.

30. James F. Collins, "The U.S. and the Caucasus States: Working Together Toward Constructive, Cooperative Development," Remarks to the Annual Meeting of the Assembly of Turkish-American Associations, Washington, D.C., October 25, 1996, *U.S. Department of State Dispatch*, Vol. 7, No. 46, November 1996.
31. Energy Secretary Federico Peña, Remarks at Caspian Pipelines Conference, Washington, DC 1997.
32. See for example John E. Herbst, Deputy Coordinator for the New Independent States, "U.S. Policy Towards the Caucasus." Excerpts from Statement before the House's International Relations Committee, Washington, D.C., July 30, 1996. *U.S. Department of State Dispatch*, Vol. 7, No. 33, August 12, 1996. See also Senator Robert Byrd, "America's Policy Toward the Caspian Region," February 18, 1997, [www.brittany.net.com].
33. After months of laborious negotiations, this old pipeline running from Baku to Novorossisk via the breakaway region of Chechnya and the city of Tikhoretsk was reopened on October 25, 1997. For the first time since its independence, Azerbaijan thus became an oil exporter. With a maximum annual capacity of five million tons (100,000 bpd), this pipeline is meant to carry the "early oil" produced by AIOC. Pumping of AIOC oil started on February 1, 1998. By February 12, an overall total of nearly 12,000 tons of oil extracted on Chirag had been pumped through this pipeline. This comes in addition to the 64,000 tons of Azerbaijani oil produced by SOCAR without the participation of foreign companies which has been pumped to Russia since the reopening of the line. Output at Guneshli, Chirag and Azeri is targeted at 40 million tons a year (800,000 bpd). Hence the need to build several export routes.
34. Energy Secretary Federico Peña, "Remarks." He claimed that five countries (Turkey, Azerbaijan, Turkmenistan, Kazakhstan and Georgia) were also supporting this option which should be decided by October 1998. For obvious reasons, Russia is opposed to it. Other projects envisage shipping oil from Georgia to the ports of Odessa (Ukraine), Burgas (Bulgaria), Alexandroupolis (Greece), Constanza (Romania) and Trieste (Italy).
35. Ilham Aliev, "Azerbaijan: The New Source of Energy of the 21st Century," transcript from a seminar organized on November 21, 1997 by the John F. Kennedy School of Government, Harvard University.
36. In January 31, 1995, U.S. Ambassador to Turkey, Mark Grossman, announced that the pipeline war had already turned to Turkey's advantage. Bulent Aliriza, "Overview of the Turkish Pipeline Route Alternative," *Caspian Crossroads*, 1 (Winter 1995).
37. Thomas L. Friedman, "Pipeline Politics," *New York Times* September 13, 1995.
38. Deputy Secretary James Talbott, "A Farewell to Flashman."
39. *Internet Securities*, 4 February 1998.
40. Victoria Nulan (Deputy to Stephen Sestanovich, U.S. Ambassador at large in the CIS), *U.S.-Russian Relations now that the Honeymoon is over*. Talk delivered at the Kathryn W. and Shelby Cullom Davis Center for Russian Studies, Harvard University, February 6, 1998.
41. Last January, Aliyev announced he had asked parliament to abolish capital punishment. The move seemed to be motivated by Azerbaijan's desire to join the Council of Europe, which has coaxed prospective members to eliminate the death penalty within three years after their admission.
42. Deputy Secretary James Talbott, "A Farewell to Flashman."
43. C.D. Sabathier, President of Mobil Oil New Exploration and Producing Ventures, comments made during a seminar on Azerbaijan organized on November 21, 1997 by the John F. Kennedy School of Government, Harvard University. See Ilham Aliev, "Azerbaijan: The New Source."
44. Ash Carter, former Assistant Secretary of Defense in the Clinton administration.
45. According to Iran's Deputy Oil Minister Mohammad Nejadhossenian, his country

- could easily pump up to 75,000 bpd of central Asian crude by reversing flows through its existing pipeline system. Reuters, November 19, 1997.
46. Mehdi Varzi, Head of Energy Research at Deutsche Kleinwort, quoted in Reuters, November 9, 1997.
 47. Kazakhstan and Iran agreed in November to resume oil swaps suspended because of a technical dispute. Under the deal, Kazakhstan would deliver up to 2 million tons of crude oil a year to Iran. An equal volume of Iranian oil would then be exported to European markets through the Persian Gulf. French and German companies have been commissioned by the Tehran to study the technical feasibility of a Kazakh-Iranian pipeline. A project to modernize the Caspian Sea port of Aktau is presently considered by the Kazakh government. If completed, it would open way to the creation of a new export corridor to the Iranian port of Enzeli. See Vladimir Mesamed, "Kazakhstan-Iran: realii i perspektivy sotrudnichestva," *Tsentralnaya Aziya* 4 (1997).
 48. Zbigniew Brzezinski, "A Geostrategy for Eurasia," *Foreign Affairs* 76:5 (September-October 1997). In December last year, Khatami called for a "political dialogue" with Washington. The U.S. administration cautiously welcomed the offer.
 49. Reuters, November 14, 1997.
 50. The first section of this pipeline was inaugurated on December 28. Besides the Turkey-Iran route, the study is looking for another option through the Caspian Sea to Azerbaijan. A feasibility study began in January and is expected to take nine months. Reuters, February 10, 1998.
 51. Reuters, January 19, 1998
 52. Victoria Nulan.
 53. About 85 percent of Turkmenistan's gas exports currently go to European markets through Russia and Ashgabat is anxious to develop alternative routes in an attempt to break free from dependence on Gazprom's pipeline network. Turkmen gas exports through Russia totaled 33 billion cubic meters in 1995, down from an average 90 billion cubic meters under the Soviet regime. In 1996, Turkmenistan exported a mere 25 billion cubic meters to Europe and other CIS countries. This sharp decline is due to high transit fees imposed by Russia, which regularly diverts gas from European markets to cash-stripped former Soviet republics, which cannot afford to pay for it. Exports of Turkmen gas to Ukraine and the Caucasus via through Russia were halted in March 1997.
 54. Royal Dutch/Shell Group managing Director Mark Moody-Stuart, quoted in Reuters, February 10, 1998.
 55. The ILSA theoretically allows an initial 90-day period for talks which companies that infringed the U.S. law and a further 90 days if Washington decides there is progress.
 56. Reuters, 20 February 1998. Eizenstat's comments suggest that, should the State department comes to the conclusion that the Total deal formally violated U.S. legislation, Washington would either give up, either decide to open consultations with the relevant foreign governments to resolve the issue.
 57. Richard Matzke, President of Chevron Overseas Petroleum Inc., quoted in Reuters, January 31, 1998.
 58. One of the most striking examples of this symbiosis is Washington's support to the Taliban militia in Afghanistan. When the Islamic fundamentalists took over Kabul in September 1996, the State Department said this should be considered as a "positive step." Commentators have suggested that the Taliban had been armed with the help of the U.S. and Pakistani secret services. There is still no evidence of an U.S. military engagement in Afghanistan. But the fact remains that Unocal, a leading contender at the time for construction rights on a 1,464-km (915-mile) pipeline project to transport natural gas from southeastern Turkmenistan to Pakistan through Afghanistan, is suspected to have provided the Islamic forces with so-called "humanitarian aid", notably in the form of fax machines (Index on Censorship 26:4 (1997)). The company's board also expressed support to the Taliban forces shortly after they gained control

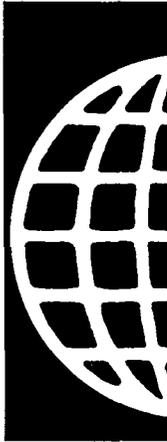
over the Afghan capital. "If the Taliban lead to stability and international recognition, then it is positive. I understand Pakistan has already recognized the (Taleban) government. If the USA follows, it will lead the way to international lending agencies coming in", then stated Chris Taggart, executive President of Unocal International Energy Ventures Ltd. (Pipeline News No. 33, 12-18 October 1996). Washington never recognized the Taliban government and even condemned Afghanistan's new leadership for its poor human rights record. The fact that the Islamic students said they were still negotiating with Argentina's Bidas on a rival pipeline project has, no doubt, made this change easier for the U.S. government.

59. "We welcome the fact that (Khatami) wants a dialogue with the American people. But we continue to believe that the way to address the issues between us is for our two governments to talk directly," State Department spokesman James Rubin said after the Iranian leader called for a dialogue between the peoples of the United States and Iran. Reuters, January 8, 1998.
60. Turan news agency (Azerbaijan), quoted in RFE/RL, September 25, 1997



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