

**ENERGY DIPLOMACY: A CASE STUDY OF  
CASPIAN SEA REGION, 2000-2007**

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## DECLARATION

I declare that the Dissertation entitled “**Energy Diplomacy: A Case Study of Caspian Sea Region, 2000-2007**” submitted by me in the partial fulfillment for the award of the degree of **Master of Philosophy of Jawaharlal Nehru University** is my own work. The dissertation has not been submitted for any other degree of this University or any other University. If any error or mistake found in dissertation, will be my responsibility.

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## CERTIFICATE

We recommend that this dissertation be placed before the examiners for evaluation.

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**TO MY PARENTS**

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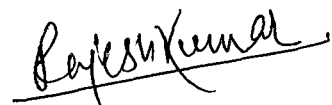
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## **Abbreviations and Acronyms**

**AIOC-** Azerbaijan International Operating Company

**BG-** British Gas

**BP-** British Petroleum

**BTC-** Baku- Tbilisi- Ceyhan (Pipeline, Company, Consortium)

**CEP-** Caspian Environment Programme

**CITES-** Conventions of International Trade in Endangered Species of Wild Fauna and Flora

**CNPC-** Chinese National Petroleum Company

**CPC-** Caspian Pipeline Consortium

**ECO-** Economic Cooperation Organization

**EIA-** Energy Information Administration

**Eni-** Ente Nazionale Idrocarburi

**EU-** European Union

**IEA-** International Energy Agency

**KCO-** Kazakhstan North Caspian Operating Company

**LNG-** liquefied natural gas

**LPG-** liquefied petroleum gas

**OKIOC-** Offshore Kazakhstan International Operating Company

**OPEC-** Organization of the Petroleum Exporting Countries

**PFP-** Partnership for Peace (NATO)

**PSA-** Producing Sharing Agreement

**RSFSR-** Russian Soviet Federative Socialist Republic

**SOCAR-** State Oil Company of the Azerbaijan Republic

**TAP-** Turkmenistan- Afghanistan- Pakistan (pipeline)

**tcf-** trillion cubic feet

**tcm-** trillion cubic metres

**UNCLOS-** United Nations Conference on the Law of the Sea

**UNDP-** United Nations Development Programme

**Ytf-** yet- to- find (reserves)

## INTRODUCTION

The word *Diplomacy* is derived via French from the ancient Greek *diploma*. Diploma is composed of “*diplo*” and “*ma*.” The meaning of diploma is “folded in two” and “*ma*” is an “object”. Although, there is no any specific definitions of diplomacy. It has been understood in two sense- narrow and wider. In narrow sense, it refers to the process by which government acting through official agent and communicates with one another. In wider sense, it refer to mode of technique of foreign policy affecting the international system (Sills, David L;1972;187).<sup>1</sup> The Oxford dictionary calls it “management of international relations by negotiation,” or “the method by which these relations are adjusted and managed”. A charming characterization, though vague and inadequate, is given in Sir Ernest Staow’s Guide to diplomatic practice, a work which has been the bible of British diplomats for many years. “Diplomacy” is written by Sir Ernest- “Diplomacy is the application of intelligence and tact to the conduct of official relations between the governments of independent states”( Palmer, Norman D. and Perkins, Howard C; 2004; 84).<sup>2</sup>

### **The Origin of Modern Diplomacy**

The beginning of organized diplomacy may be traced to the relation among the city- states of ancient Greece. By the fifth century B.C., Nicolson states, “special missions between the Greek city-states had become so frequent that something approaching our own system of regular diplomatic intercourse had been achieved.”<sup>3</sup> Thucydides told us much about diplomatic procedure among the Greek, as, for instance, in his account of a conference at Sparta in 432 B.C., in which the Sparta and their allies considered what action should be taken against Athens. The Roman did little to advance the art of diplomacy by negotiation. They had important contributions in international law. In the Eastern Roman Empire, which was established after Constantine had moved his capital to the city that honoured his name for many centuries. Diplomatic method were employed with great effect. The Eastern emperors had marked success in playing



off potential rivals against each other, and the reports of their representatives at foreign courts gave them information. With the help of this information, they were able to utilize it to their advantage. Their representatives therefore became skilled diplomats and trained observers, thus, extending the practice of diplomacy to include accurate observation and reporting as well as representation.

Until the late 18<sup>th</sup> or early 19<sup>th</sup> century diplomacy more often meant the study and preservation of archives than the act of international negotiation. This concept was prevalent in the middle ages. Modern diplomacy as a profession arose in Italy in the late middle ages. The rivalries of the Italian city-states and the methods which their rulers used to promote their interests are described in masterful fashion in Machiavelli's *The Prince*. The Holy See and the Italian city-states developed systems of diplomacy at an early date. In 1455, the first known permanent mission was established at Genoa by Francesco Sforza, Duke of Milan. During the next century Italian city-states established permanent embassies in London and Paris and at the court of Holy Roman Emperor. For nearly three centuries, however, the machinery appears to have been neither adequate nor standardized. Diplomacy was still the diplomacy of the court. Its object was to promote the interests of the sovereign abroad by various means, direct or devious, fair or foul, and its standards were low and ill-defined. By the 17<sup>th</sup> century permanent missions were the rule rather than exception, and diplomacy had become an established profession and a generally accepted method of international intercourse. The rise of nationalism and the nation-state system made some such machinery essential, especially after the Peace of Westphalia of 1648 had crystallized and formalized the state system. Diplomats from all European countries, as well as noblemen and others from parts of France, graced the court of Louis XIV, and gave it that pomp and splendor which dazzled his contemporaries and set a pattern for decades to come. The diplomacy of court entered its golden age in the 18<sup>th</sup> century. By the late 18<sup>th</sup> century the industrial, American and French revolutions had ushered in a new era of diplomacy. Captains and kings passed from the scene in many lands, and the voice of the people began to be heard. The unassuming figure of Benjamin Franklin in the streets of Paris and London, representing a nation in the making, symbolized the coming era of more democratic diplomacy, to

attempt to represent a nation rather than a ruler, and to attempt to feel the pulse of a people rather than of the king alone, imposed far more complicated duties on the diplomat. Diplomatic profession was still largely confined to those who had other source of income. Inevitably, this meant so-called democratic diplomacy was still carried on by representative of the aristocracy of wealth and often to rank.

As diplomacy became less formal and restricted, its rules became more standardized and more generally accepted. The congress of Vienna made particularly important contributions in this respect. To place diplomacy on a more systematic and formal basis, the congress laid down certain rules of procedure which are still commonly observed. The rules were embodied in the Reglement of March 19, 1815, and in regulations of the Congress of Aix-la-Chapelle, 1818.<sup>4</sup> This treaty is the base of the modern diplomacy. Diplomacy has various means to communicate to each other, such as dollar diplomacy, summit diplomacy, sports diplomacy, energy diplomacy, cultural diplomacy, public diplomacy, etc.

### **Energy diplomacy**

Energy affects commercial and political relations between countries. It fuels the world economy. Production and consumption of the energy impact the global environment. Energy is a challenge for the industry that has to harness it. It is also a challenge for national and international leadership that have to govern it. Energy, in fact, goes to the very core of the political, economic and environment interests of individual countries, as well as those of the global community (Walther, Arne; 2008;48).<sup>5</sup> Since the origin of civilization energy has fundamental value. It has been regarded as lifeline of civilization. Through, human history, the foundations of civilization has rested heavily on their energy supplies. Ancient Egypt under the Pharaohs, Athenian Greece under democracy, and the America South before the civil war depends on human slaves as primary energy resource. Adequate energy is an essential prerequisite for hope that billions of human beings in future generation will be able to live in reasonable material circumstance and with some dignity in this small planet (Willrich, Mason; 1975;01).<sup>6</sup> In other words, energy is an essential input for sustaining and enlarging economic

development of a country and for enhancing the quality of life of the people. Hence, energy is crucial for economic and daily life of people, states want to secure it. As a result, “energy security” term is vital issue in international politics.

In present time, energy security, climate change, migration and transnational crime are priorities for foreign policy and national security (Wallace, William;2008;24).<sup>7</sup> “Energy security” means sufficient supply of energy resources at reasonable price (Pavlov, Mikhail Y;2006;12).<sup>8</sup> Energy security has become essential part of economic growth and national security. The “developed” world’s concept of “energy security” has evolved in the context of its excessive dependence on imported energy and the localization of supplies in the unstable regions of the world (Panwar, Dr. Surjit; 2006; 47).<sup>9</sup> In the banner of energy diplomacy, states discuss the various aspect of energy. We can classify issue of energy diplomacy in following titles- resource of energy, development of energy reserves, price and transportation of energy resource.

There are basically two types resource of energy- renewable and non-renewable (coal, oil, and gas etc.) Time to time, a particular resources of energy has an important role in international politics. The nineteenth century was the century of coal, the twentieth century is the century of oil. Natural gas is regarding as future of energy. In present time, there are various sources of energy- oil, gas nuclear energy, solar energy, tidal energy, etc. But, my focus is at oil and gas. Oil, gas and coal are regarded as “golden fund of earth.” The famous Russian chemist, Dmitry Mendeleev said- “to burn oil means to stoke as stove with banknotes” (Pavlov, Mikhail P; 2006;-13).<sup>10</sup> Oil and gas are not just commodities of trade in international markets. Control over territory and its resources have strategic assets. State actors expand domestic states- society complexes to the international level (Aminen, Mehdi Parvizi and Houweling, Henk; 2007; 365).<sup>11</sup>

Oil and gas reserved are concentrated in particular region of world, such as Persian Gulf, Caspian Sea, North Sea Indonesia, United States, and Mexico Gulf. Since, discover of oil and gas, these regions have been centre point in international politics. States want to maintain good relation with oil producing countries. States also want control oil reserve in the favour of them. Monopolizing control over energy

resources by the Anglo-Saxon maritime power was one of the causes of both world wars.<sup>12</sup>

Present time, oil and gas, particularly oil has an important role in economy and various aspect of daily life of human beings. Oil is the main raw material for production of diverse synthetic material. Though existing technologies enable us to manufacture products of organic synthesis from other kinds of raw materials, like- coal, gas, biomass, etc. Their cost with the (exception of gas technologies) so far it higher than the oil-derived products. Oil by products is the main fuel for transportation and heating. 8% of world electricity is generated from oil. Oil will keep its dominant position in the structure of the world energy consumption for the next 20-30 years (Shafranik, yury k; 2006; 52).<sup>13</sup>

Oil thrust country, like- the United States, India, China, European country, Japan, etc want to continuous supply of oil at reasonable rate. For that, they look towards oil producing countries. Any project that has adverse impact on the interest of oil thrust country, perceive this, as question mark on their national security. So they want to secure about energy security and do not tolerate any threat for its energy. Energy security concerns continue to top the international political agenda. It is not because it is a goal in itself. It is because every country needs energy as a means to reach the respective economic and social objective. Energy, in fact, goes to the very core of the political economic and environmental interests of individual countries, as well as those of the global community (Walther, Arne; 2005; 48).<sup>14</sup>

Although, Energy security is non- traditional aspect of security. But, it has been closely linked with military security. During the First World War, Winston Churchill's readiness "to shed a drop of blood for every drop of oil" remains the most quotable quote to illustrate the point. A few decades thereafter, President Jimmy carter enunciated what came to be known as the "Carter Doctrine". In a state of the Union message in January 1980, he said- "An attempt by any outside force to gain control of the Persian Gulf region will be regarded as an assault on the vital interests of the Unite States of America and will be repelled by nay means necessary including military force". The

implementation of the doctrine was the creation of an 110,000 strong, fast moving, hard hitting Rapid Deployment Force. Churchill intended to secure energy for military purpose by military means. Carter was prepared to secure energy in peacetime by military means. The official utterances have been formulated into military doctrines and have been backed up by actions. The American projections of power, its extensive military presence and its wars in and around the energy- rich Gulf demonstrate the energy-military nexus in security fields (Diet, Prof. Gulsan; 2006; 103-104).<sup>15</sup> During the first world war- major actors to secure about energy security were – United States, Britain, Germany, and France. All these actors were engaged in west Asia, tried to establish their own monopoly in their region. Because, West Asia is regarded as epic center of world energy, due to its oil and gas reserves.

In 1911, Winston Churchill soon after, he became the first lord of the Admiralty, took a decision that established an irrevocable connection between oil, diplomacy and war for all time to come. The decision was to substitute coal by oil as source of power for British Navy. In his own words- “to commit the navy irrevocably to oil was indeed to take arms against sea of troubles.” Churchill was soon tested, when the United Kingdom and her allies floated on American oil to victory in the First World War. Washington was upset that London and Paris would control Iraq and Syria under the mandate system of the League of Nations in which America was not a member as the senate rejected President Woodrow Willson’s proposal to join the world body. Washington was worried that at that time the British controlled the greater part of oil fields outside the United States. American Ambassador, John W. Davies in his communication to British Foreign office referred “to the unfortunate impression in the minds of American public, that the authorities of his majesty’s Government in the occupied region had given advantages to British oil interests which were not accorded to American oil companies and further that Great Britain had been preparing quietly for exclusive control of the oil resources of the region.” Taking an overall view of the situation, Washington decided to insist on an “open door.” Open door policy was coined in Iraq, partly because of its proclivity to clothe its interest in a Wilsonian garb, and partly because it knew that if the door were kept open the only companies able to get in

will be the American ones. United States also shaped relations with Saudi Arabia. Saudi Arabia was the only country in the region that was the outside of political control of London. Socal (the standard oil of California, later to be part of Aramco) obtained in 1933 an exclusive sixty-year concession in the newly formed Saudi Arabia of King Ibn Saud. The first Arabian oil was exported in 1939, so impressed Ibn Saud that he increased the area of the American concession to 4, 44,000 square miles, giving Socal a monopoly over a piece of real estate the size of Texas, Louisiana, Oklahoma and New Mexico combined (Fabian, K.P; 2006; 243).<sup>16</sup>

As the Second World War progressed, Germany's submarine warfare and African corps curtailed the American company's operations. When the king, short of cash, turned to Aramco for money in 1940, the American company advanced him \$2,980,988 against future oil royalties. In January 1941, the king demanded an additional \$6 million and Aramco, which had very little to show its shareholder for their heavy Arabian investment, turned to Washington. On April 9, 1941 Socal vice president James A. Moffet went to the White House and asked President Roosevelt to extend Ibn Saud a \$6 million US government loan. President Roosevelt told Moffet that direct subsidization was impossible under existing American laws but suggest that Aramco might generate that \$6 million by selling its petroleum products to the United States Navy. Navy Secretary Frank Knox, however, rejected the plan on ground that the amount involved went far beyond the requirement of the American fleet in the Gulf and the Indian Ocean. Under the pressure of mounting American participation in World War-II, the Roosevelt Administration viewed the British as a convenient ally in bailing out the government of King Ibn Saud. President Roosevelt intervened and sanctioned \$400 million. United States sanctioned loan King Saud to stabilize his Country.<sup>17</sup> By early 1943, the Roosevelt Administration grew more receptive to Aramco's problems. Partly because of the shortage, while the British Government moved to consolidate its position in Saudi Arabia. While acting as the conduit of US Government assistance, the British portrayed themselves as king's real benefactors and Aramco was convinced that the future of its concession was at stake. The officials of both the Standard Oil of California and the Texas company were much disturbed about the future security of their concession not only

because of the normal insecurity in Saudi Arabia, but also because they feel that the British may be able to lead either Ibn Saud or his successors to diddle them out of the concession and the British into it. American experts on Saudi Arabia were inclined to agree with this estimate of the situation. They point out that the Anglo Iranian Oil Company had every opportunity to get this concession, and after examination rejected it on the ground that there was no oil in Saudi Arabia, and have been regarding the concession with covetous eyes ever since the American struck oil. The British move to set up a bank of issue for Ibn Saud and the act of the British charge d' Affairs in Jeddah. Mr. Kirk had visited Ibn Saud. Mr. Kirk promised Ibn Saud about lend lease aid. He also informed Ibn Saud that he could get further American lend-lease only by applying to the British authorities either in Jeddah or London seem to indicate a desire to strengthen British influence over Ibn Saud at the expense of American influence in a manner not quite healthy for oil concession. Social President, Collier and Texaco Chairman, Rodgers told Roosevelt Administration that direct United States Lend Lease assistance for King Saud was only way to keep their Arabian concession from falling into British hand.<sup>18</sup> President Roosevelt's attention was drawn to the fact that Saudi Arabia was the only large neutral country in the Gulf not yet included in Lend Lease program. Rodgers memorandum emphasized the importance of the Aramco concession to America's long range energy needs and offered to set aside a separate petroleum reserve from which the united States government could supplied at preferentially low prices, in return for direct united States Lend Lease Assistance to king Ibn Saud. On February 18, 1943 President Roosevelt gave the go ahead to the lend lease administration, in order to, enable you to arrange lend Lease aid to the Government of Saudi Arabia. Roosevelt found that the defense of Saudi Arabia is vital to the defense of united States.<sup>19</sup> In 1943, the British controlled 81% of middle East oil production as compared with 14% under American control. Roughly the same disparity existed in Middle East refinery capacity, where the giant Abadan refinery in Iran capacity helped to give the United Kingdom 85% of the region's refinery capacity as compared with 8% under American control.<sup>20</sup>

Axis power- Germany, Japan, and Italy had not as oil interest in Gulf region as United States and Great Britain. They did not participate in commercial rivalry

between Great and United States.<sup>21</sup> Although, Germany, Japan made some attempt, but could not get success as United States and United Kingdom got. During First World War, the British blocked Germany's Berlin-Baghdad rail project; during world war II . Nazi Germany completed with the British for influence in Iraq and tried to capture Baku. Japan waged with America to gain access to oil in the Dutch Indies (Amineh, Mehdi Paravizi and Houweling Henk; 200; 364).<sup>22</sup>

### **Energy Diplomacy After Second World War**

Post second world war, United States got success to bypass United Kingdom in Gulf region. In this period, United States was continued with Lend Lease assistance. Under this flag, in Saudi Arabia, American companies came up with scarce construction material. In the spring of 1944, at the invitation of the Roosevelt Administration representative of the British Government and its oil industry came to Washington to negotiate an agreement pledging cooperation between the two allies on international oil question. In effect, the United States asked the British to forego the exercise of those colonial prerogatives which prevented United States national from compelling on an equal footing with British companies. On August 8 1944, after strenuous cabinet-level negotiation, a vaguely worked Anglo-American oil agreement was signed. By a statement of general principles, the Administration hoped to eliminate the restrictive practices imposed by the British on American companies operating in the Gulf. Over a period of time, America replaced United Kingdom as the dominant in the Gulf (Fabian, K. P; 2006; 245).<sup>23</sup>

Russia was interested in geopolitics of Gulf oil. It was started during Second World War, when USSR President Stalin sent his assistant minister Sergei Kavtarzade to Tehran in September 1943. But, the Iranian Prime Minister refused for Joint Venture Oil sector. After this, Russian visitor threatened his interlocutor with serious consequences. Iran firmly replied that there would be no concession till war was over. The Second World War was ended on September 2, 1945, with Japan's surrender. The foreign force (United Kingdom/ United States/ Soviet) were to be withdrawn from Iran within six months of the end of the war. But, Stalin was in no hurry to withdraw his



forces, and assisted the separatists in Azerbaijan where a Soviet-backed government was set up. The Soviet Army prevented the Iranian army from entering the province. The security council of United Nations that was appealed to by Iran was of no help. Nor did the Soviet Union listen to Truman. Finally, Iranian Prime minister Qauam-al-Saltana decided to outwit the Soviets. An agreement was signed on 4 April, 1946 provided for the evacuation of Soviet troops and for the formation of a joint venture for 50 years; with 51-49 equity in favour of the Soviet Union for the first 25 year, and 50-50 equity for the next 25 years. This agreement was subjected to approval of the Majlis (Iranian Parliament). After this agreement, Soviet troops were withdrawn, but the joint venture proposal could not be put to the Majlis. Because, it was dissolved.

When, it was put before to the new Majlis. It was predictably, would be rejected. There were 102 votes against and 2 votes in support. The Majlis passed a law. It had one article,<sup>24</sup> details of this article is following-

- A. interpreted the law of 2 December 1944 to mean that Qauam should not have entered into negotiations and drawn up the agreement for the proposed Iran-Soviet oil venture, which was therefore null and void.
- B. instructed the Iranian government to make agreement for a technical survey of oil prospects in the country so that the Majlis could make agreements for the commercial exploitation of Iran's national resources by enacting the necessary laws.
- C. absolutely forbade the further grant of oil concessions to foreigners.
- D. Permitted the Iranian government to negotiate an agreement to sell any oil discovered in commercial quantities in the northern area of Iran to the Soviet Union, informing the Majlis of the results, finally with implicit reference to the Anglo-Iranian company's concession in the south of Iran.

As result, USSR could not get success as Unites States get success in Gulf region.

After getting success in Saudi Arabia, United states Started look towards Iraq. The New York Time describes Iraq "as an irreplaceable source of oil". In July 1958, coup was occurred in Iraq. Pro-Nasserite coup overthrew the British installed government

of Premier Nuri said in Iraq. There was panic, not entirely justified among the pro-western governments in the region, especially in Jordan and Lebanon. United States was deeply worried about Kuwait and its oil, though United States did not have any legal obligation to defend that country. He dispatched a force of 14,000 men to defend Lebanon. He justified his action arguing that the event in Iraq demonstrates a ruthlessness of aggressive purpose, which tiny Lebanon cannot combat without further evidence of support from friendly nations. Henry Cabot Lodge the United States Ambassador to the United Nations said that the Lebanon was the victim of indirect aggression and drew parallels to Italy's invasion of Ethiopia, Germany's annexation of Austria, and the communist take over of Czechoslovakia. On day coup in Iraq, United States President Eisenhower ordered a Marine Corps Regiment based in Okinawa to move to the Gulf "to Guard against a possible Iraqi move into Kuwait. Eisenhower met with British Foreign Secretary Selwyn Lloyd and they agreed that "for the time being intervention will not be extended to Iraq as long as the revolutionary government in Iraq respects western oil interests." On July 18, the Times from London carried the headlines- "West to keep out of Iraq, unless oil is threatened." The same afternoon, the Baghdad Radio announced the "government's intention to respect its obligation."<sup>25</sup> Once the threat to west's oil interests was removed, Robert Murphy, sent to Lebanon. He quickly concluded that communism had nothing to do with the crisis in Lebanon.

Post world war, establishment of OPEC was breakthrough in international oil politics. OPEC became a challenge for United States, particularly during Gulf crisis, and price hike of oil. Now, OPEC has become crucial actor in international politics, particularly on price of oil. OPEC- Organization of the Petroleum Exporting Countries is an intergovernmental organization created at the Baghdad conference on September 10-14, 1960 by Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. The five founder members were later joined by Algeria, Qatar, Indonesia, Libya, United Arab Emirates, and Nigeria. Ecuador was suspended from membership of OPEC in 1993. It includes the main oil producers of Asia, Africa and Latin America. The purpose behind the foundation of OPEC is the protecting the interest of oil exporting developing countries from exploitation by world finance capital, increasing the export earning and

encouraging the development of the oil wealth of member states. OPEC activities are aimed at establishing and safeguarding the national sovereignty of the member national sovereignty of the member nations over their petroleum resources. It also encourages the economic development of these nations; coordination of their oil politics as a counterweight to the activities of transnational corporations, and achieving equal economic relations between developed capitalist and developing countries. In the 1970s, OPEC took advantage of the favorable situation in the world capitalist oil market and, used oil as a political weapon. Its unilateral assumption of oil price responsibility on 16 October, 1973 catapulted it into the centre stage of the international scene. It earned title of a cartel. The abrupt rise of oil price in 1973 under the aegis of OPEC, the enormous gains reaped by the same during supply disruptions due to the Iran-Iraq war of 1978-79 and the adoption of quota system in 1982 caused sharp reactions. Due to oil diplomacy of OPEC price of oil was increased from \$1.8 per barrel in 1970 to \$ 34 in 1981. This gave the oil producing developing countries a measure of sovereignty in pricing their primary export product. As the demand for oil in the world market declined under the impact of economic crisis in capitalist countries and of the increased oil output in Non-OPEC countries, such as Britain, Mexico, and Norway, the OPEC member nations were forced to cut the price to \$29 per barrel and reduce output. In 1986, oil prices fell to \$9-12 a barrel. By the mid- 1980s, the OPEC member nations accounted for a mere 30% of world production as compared with 45 percent in 1980. The deteriorating market exacerbated the difference between some OPEC member nations. This served to weaken the organization's common position vis-à-vis the oil monopolies. In 1976 as the consumption of oil and income from oil sales continued to drop, OPEC set up a special fund for financing development project in Asia, Africa and Latin America (since 1980, It was called the OPEC International Development Fund). This fund acts as a coordinator in financial aid to newly independent states. The funds has about \$4 billion in capital and provided loans to over 80 developing countries, chiefly in Africa and Asia.

In Present scenario, OPEC has strong monopoly in fixing the price of global oil and gas market and their trade. In June 2008, price of oil has reached \$140 per barrel. OPEC also said – “If United States attack at Iran, price will

increase more.” OPEC is main exporter of oil and gas of world since its origin, and in coming days, hegemony of OPEC will be maintained. According to EIA estimates world supply by 2025 is projected to exceed the 2001 level by 42 million barrels per day. Increase in production is expected from both OPEC and Non-OPEC producers. However, only 39% is expected from Non-OPEC areas. Among the OPEC countries, Gulf constitutes about 65% of reserve in the world (Chaturvedi, B.K; 2006; 19).<sup>26</sup>

### **Energy Diplomacy in Post cold War Period**

After disintegration of USSR, Azerbaijan, Turkmenistan and Kazakhstan came into surface of international arena as independent states. During cold war, Caspian Sea was regarded as preserved lake of USSR and Iran. Foreign country did not intervene in this area. After disintegration of USSR, country like, United States attracted towards newly independent states of Caspian Sea. United States got break through in 1994, when Azerbaijan signed “contract of century” with United States. Caspian Sea states are not the member of OPEC, except Iran. Caspian Sea has rich reserves of oil and gas, in future, would be an alternative of Persian Gulf. It would have second rank after Persian Gulf. Persian Gulf has major share in the oil import of United States. United States wants to divert its oil resource from Persian Gulf. For this purpose, it perceives Caspian Sea is good option. In the early 1990s, the United States Department of Energy estimated that the Caspian oil wealth would exceed 273,000 MTOE around 16% of global reserve (Alam, Mohd. Monir; 2006; 169).<sup>27</sup> United States President, Bill Clinton said – Caspian sea is the zone of the strategic interest and after that this interests has been continuing in present time (Patnayak, Dr. Satyanarayan; 2006; 264).<sup>28</sup>

In current global order American analyst call the central Asia and Caucasus as greater Middle East, it is deemed to be part of the “strategic fulcrum of the future” or the strategic “ high Ground” due to its energy resources. In September 1995, United States expert on central Asia meet at NATO headquarter. During the course of the meeting, they went so far as to cite the extensive United States interests in Caspian

Energy deposit as reason why Washington might have to extend its Persian Gulf security guarantees to this region. America has always fanaticized about domination in Eurasia, especially in Central Asia and Caucasus which is the very heart of Eurasia and also the key to control the Eurasia. The realization that whoever rules over, Eurasia will virtually control the whole world has deep roots in the hearts of American policy experts especially the "Geo-Strategic" school of thought which include policy weightage scholars like Henry Kissinger and Zbigniew Brzezinski. Brzezinski in his article "a Geo-Strategy of Eurasia" argued- "*Eurasia is the world's axial super continent. A power that dominated Eurasia would exercise decisive influence over two of the world's three most economically productive regions- Western Europe and East Asia. A glance at the map also suggests that a country dominant in Eurasia would almost automatically control the Middle East and Africa. With Eurasia now serving as the decisive geopolitical chess board, it no longer suffices to fashion one policy for Europe and another for Asia. What happens with the distribution of power on the Eurasian land mass will be of decisive importance to America's global primary and historical legacy*" (Zbigniew, Brzezinski; 1997; 50-51).<sup>29</sup>

He also suggested that the United States needed a well-planned and multiphased strategy to achieve dominance in the region. According to him- "A sustainable strategy for Eurasia must distinguish among the move immediate short run perspective of the next five years or so, the medium term of 20 or so years, and the long run beyond that. Moreover, these phases must be viewed not as watertight compartments but as part of a continuum. In the short run, the United States should consolidate and perpetuate the prevailing pluralism on the map of Eurasia. This strategy will put a premium on political manoeuvring and diplomatic manipulation, preventing the emergence of a hostile coalition that could challenge America's primary, not to mention the remote possibility of any one state seeking to do so. By the medium term, the foregoing should lead to the emergence of strategically compatible partners which prompted by American leadership might shape a more cooperative Trans- Eurasian Security System. In the long run, the foregoing could become the global core of genuinely shared political responsibility (Zeb, Rizwan; 2003-04; 42).<sup>30</sup>

United States has close look towards Central Asia and Caucasus region, more consensus about this region. After the disintegration of USSR and declaration of independence by the Central Asia and Caucasus republics, soon after, the United States established well-staffed embassies throughout the region. In 1995-96, an independent "Central Asia-Caucasus Institute" was established in Washington. In 2001, the Senate Foreign Relations Committee set up a "Central Asia-Caucasus Sub Committee."<sup>31</sup> The objectives of United States in the region include –increasing the supply of energy to consumers to promote democracy in the newly independent states and their integration into western economic, political and military institutions and practices, integration of these states into European security structures and their participation in NATO, Euro-Atlantic Partnership Council-EAPC, and Partnership for Peace- PFP encouraging an expanded OSCE role in regional confidence building measures and democratization.<sup>32</sup>

Russia perceives Caspian Sea its own reserved area. It is dominant actor in Caspian Sea region. With the help of hydrocarbon resource of Caspian Sea, wants to become energy super power at international arena, and major player outside of OPEC. China has emerging economy. In 2003, it has second rank in energy consumption after United States. In future, demand of oil in china will increase. China imports oil from Persian Gulf. China seeks an alternative of Persian Gulf that is Caspian Sea. China has border with Kazakhstan, Kyrgyzstan, and Tajikistan. China wants to solve Uyghur problem by assistance of Central Asian States. To set up his policy china formed SCO-Shanghai cooperation organization. China banked heavily on the SCO as the instrument through which it would be able to project its influence and power in Central Asia. That reason would, it hoped be a source of much needed energy resources, a buffer for sensitive Xinjiang province, and a launch pad for its larger strategic aspirations in west Asia (Kumar, Rama Sampat; 2002; 3417).<sup>33</sup> European Union also considered Central Asia and Caucasus region as exporter of hydrocarbon resources for its need. The founder treaty of European Union was the "European community on coal and steel." It can say that European Union came into existence in the light of energy security. In 2004, former Soviet Union has 30.0 percent contribution in crude oil supply of European union-

19. European Union has two basic aim in central and Caucasus region- promote democracy and human right, and import hydrocarbon resources (oil and gas).

In the reference of future energy diplomacy, Analyst have assumed multi energy pole in world politics. One of the poles of the multi polar energy world is the United States, which consume 27 percent of the oil and gas produced in the world. The other pole is formed by producer of oil and gas, united in OPEC. One peculiar pole of the world rests on independent oil producer's like- Russia, Norway and others. Two new power poles of energy consumption- India and china – are rapidly emerging (Shafranik, Yury K; 2006; 49).<sup>34</sup>

### **Energy Diplomacy and War on Terrorism**

Prior to September 11, 2001, terrorism was perceived as local affair, condemned but not taken seriously by the international community. 9/11 terrorist attacks on World Trade Centre and Pentagon, international community has changed their mind set toward terrorism. Now terrorism is regarded as threat for international security and stability. To suppress terrorism and its breeding grounds of Al-Qaeda, United States intervened in Afghanistan. Al-Qaeda terrorist organization was involved in 9/11 attack. Terrorist who were involved in 9/11 attack were from Saudi Arabia and Egypt. Saudi Arabia is the main exporter of the oil United States. According to Edward R. Royce, Chairman of House Sub-Committee on International Terrorism and Non-Proliferation- *“the possibility of energy terrorism, attacks on the world’s energy infrastructure does not generate the same attention as potential chemical or bio-logical or nuclear terrorism. But the economic implication of such attack is potentially enormous. Many believe that the reason we are looking at oil at \$60 a barrel is the fact that we have a “terror premium”, factored in to the price of a barrel of oil. Some suggest that oil terrorism is emerging as a major threat to the global economy. Combating this threat should be a part of our complex goal of improving our nation energy security”* (Mahapatra, Chinatmani; 2005; 8).<sup>35</sup>

*“Because of United States Energy demands and the global nature of energy market, terrorist can strike at us almost any where in the world. Oil markets are tight, with little spare capacity and demand is increasing. As we will hear today, there is strong evidence that a relatively small disruption to oil production throughout the world could spike world energy prices, severely harming the American economy. We have taken steps to improve the security of the energy infrastructure of this country since 9/11. But, unfortunately, terrorists attacks aboard could hurt us if they were committed here at home.”*<sup>36</sup>

*“Al-Qaeda” and other seem to be thinking this way. Al-Qaeda documents call for in their words- “heating well and pipelines that will scare foreign companies from working there and stealing Muslim treasure.” Last February a message posted on an al-Qaeda affiliated web-site initialed “map of the future al-Qaeda operations” stated the terrorist would make it a priority to attack Middle East oil facilities.”*<sup>37</sup>

Post 9/11 attack, United States is more conscious about energy security. It wants to keep secure Persian Gulf and Caspian Sea from terrorist attack. On the issue of “War on Terror”, United States got support from Russia and China in Central Asia and Trans Caucasus region. Russia and China both are experiencing extremism and separatist movement, such as Chechnya (Russia), Xinjiang (China). In the wake of September 11 attack, Russia has surprisingly cooperated with Washington’s moves and generally affirmed its aims. The United States – Russian dynamics in particular changed, Putin agreed to allow the United States to negotiate the military/ air base and operational facilities with Afghanistan’s neighbours. The United States has begun to treat Putin as a partner, even suggesting a closer relationship with NATO. Besides, Russia is concerned about the danger of nuclear proliferation and the fear of biological and chemical weapons falling in the hand of terrorist in the region. American presence will go a long way in finding solutions. Three ex- soviet states- Ukraine, Belarus and Kazakhstan still have nuclear warheads and the American effort to remove stocks of fissile material from Kazakhstan are certainly a welcome relief of Russia (Kumar, Rama Sampat; 2002; 3416).<sup>38</sup> China also supports United States on the issue of war on terror. For china, the



stability of Xinjiang is important. It is seen as a test case of central control, relevant to Beijing's grip over Tibet and Inner Mongolia. Xinjiang is also viewed as traditional buffer against the Turkic Muslim Uyghur invasion from North West. The province also contains three major oil basins- Turpan, Jungar, and Tarim. China wants to justify its actions to suppress Uyghur movement in the reference of war on terrorism.<sup>39</sup> United States get global support on war on terror. United States thinks about stability in central and Trans-Caucasus Asia. Stability will improve energy trade in this region. United States and other multi-national companies' interests have been articulated by Howard Chase, Director of International Affairs of BP Amoco, Washington who stated- "the basic question not about investment in the pipeline, but rather about identifying the most timely and secure route for getting the oil to the market." A "friendly" pro-United States regime in Afghanistan would greatly assist United Oil companies, a fact often voiced by Vice-President Dick Cheney (Cheney, Dr. Anuradha M; 2001; 156).<sup>36</sup>

### **Energy and Environment**

"E" for energy was the key word in the 1970s. "E" for Environment was the word in the 1980s and E2-Energy and Environment have become the buzzwords at the beginning of this century (Kapur, J.C; 2006; 30).<sup>41</sup> The environmentally and socially disruptive consequences of the accumulating carbon dioxide, other pollutants and the depletion of the ozone layer have caused wide spread climatic and physical damage to our life support systems. The carbon dioxide though making up only 0.028 % of the atmosphere traps enough of the escaping heat to warm the earth. It has increased by about 25% in the last 200 years, from 218 parts per million at the beginning of the industrial revolution to 315 parts per million 30 years ago and about 360 parts per million today.

Due to global warming decreasing the density of ozone layer and climate changing, states are advised to use eco friendly energy resources and decrease the use of traditional resources-coal. Although, oil and gas also release carbon dioxide in environment but comparatively coal, is low. If all liquid and gas fossil-fuel resources were to be used, over 500 Giga ( $10^9$ ) tonnes of carbon as carbon dioxide would be released into the atmosphere and about 300 Giga tonnes be retained in it. This would

raise the present level of carbon dioxide of 335 or 700 Giga tonnes by about 40%. If the coal resources with carbon dioxide released per EJ of over 23 million tonnes were also to be consumed. It would raise the level of carbon dioxide by over 1400 Giga tones to about 3 times the present level.<sup>42</sup> According to estimation, total worldwide energy requirement in the year 1989 was about 325 EJ and this, on the basis of present trend, is expected to increase to between 1100 and 1400 EJ by the year 2030. Fossil- fuel resources as 80000 EJ of which oil and gas together constitute only 15,000 EJ and the remaining 65,00 EJ is that of coal.<sup>43</sup> so coal has major contribution in energy. As we know it is not eco-friendly. States are trying to divert their need in the form of oil and gas. Oil and gas are non-renewable energy resources. One day its capacity would be declined. Day by day demand of oil and gas is increasing. According to EIA outlook by 2030, oil will have 37.8% in global primary energy demand.

**Table- 1**

**IEA Outlook for Global Primary Energy Demand (mnt.o.e.)**

	1971	Perce nt	2000	Perce nt	2010	Perce nt	2030	Perce nt
Coal	1449	29.0	2335	25.4	2702	24.3	36.6	23.6
Oil	2450	49.0	36.4	39.3	4272	38.4	5769	37.8
Gas	895	18.0	2085	22.7	2792	25.1	4203	27.5
Nuclear	29	0.6	674	7.3	753	6.8	703	4.6
Hydro	104	2.0	228	2.5	274	2.5	366	2.4
Other renewable	73	1.5	233	2.5	336	3.0	618	4.0

Total	4999	100	9179	100	11,132	100	15,267	100
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**Source-** Malakar, DR. S.N. (2006, edited), *India's Energy Security And the Gulf*; Delhi, Academic Excellence, page no-65

Due to growing demand old reserves of oil are become today importer of oil. The old reasons of production like-north Sea, United States and Indonesia are witnessing a fall in their reserves and traditional oil exporters are turning into net importer, due to increasing the demand for energy resources. In the year 2004, Indonesia imported 20% more oil for its domestic consumption than it exported. In the United States, oil import increase by 3, 00, 000 barrel per day every year and this figure would grow faster as the deposit in the country deplete (Igor, Tom berg;2006; 61).<sup>44</sup> Now states are willing to find an alternative of oil and gas that should be eco-friendly.

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## CHAPTER- 1

### GEOPOLITICS OF CASPIAN SEA

Geopolitics is a discipline that discusses the impact of geography upon the foreign policy of states. It is concerned basically with the application of geographic information and geographic perspectives to the development of the foreign policy of state. Geopolitics is the analysis of geographical influences on power relationship in international politics. Geopolitical theorists have sought to demonstrate the importance in the determination of national policy of such considerations as the acquisition of natural boundaries, access to important sea routes, and the control of strategically important land areas (Encyclopedia; 1987; 193).<sup>1</sup> The word, Geopolitics was for the first time coined by Rudolf Kjellen (1864 -1922). He was a university professor at Uppsala and greatly influenced by Friedrich Ratzel (1844-1904) who was widely known as the Founder of organic theory of state.

#### **Definitions of Geopolitics-**

**Hartshorne** (1954) argued (Brunn, S.D. and Mingst, K.A; 1985; 48)<sup>2</sup>- "Geopolitics had a specific meaning. Geopolitics is the application of the knowledge and techniques of political geography to the problems of international relations."

**Sprout** (1968)<sup>3</sup> said- "Geopolitics is the areal aspect of any political pattern and, in particular hypotheses that purport to explain or to predict area distributions and pattern of political potential in the society of nations."

**Glassner and de Blij** (1980)<sup>4</sup> said- "Geopolitics is concerned basically with the application of geographical information and geographic perspectives to the development of a state's foreign policies. It has been called, with some justification "applied political geography."

Cohen (1973)<sup>5</sup> – “The essence of geopolitical analysis is the relation of international political power to the geographical setting. Geopolitical views vary with the changing geographical setting and with man’s interpretation of the nature of this change.”

Sen (1975)<sup>6</sup> said- “The scope of geopolitics is wider than that of political geography; it also includes a study of military, naval, and air strategies. Moreover, Geopolitics has a double function, like political geography, it represents facts as they are, but unlike political and other departments of geography, it analyzes and interprets the national situations of a country and the global scene on the basis of facts presented and formulates the internal and external policies of that country.”

### **Development Of Geopolitics-**

Rudolf Kjellen (1864-1922) presented his theory in his important book—*Staten Som Lifsform; (The States as an Organism 1916)*, State is composed of five organs (Glassner, M.I. and Deblij; 1980; 264)<sup>7</sup> -

*Kratopolitik* – Government structure

*Demopolitik* – Social structure

*Oekopolitik* – Economic structure

*Geopolitik* – Physical structure

Kjellen introduced aspects of the quality of the population, the nation whose aggregate constitutes the body of the state. Kjellen saw the states in a condition of constant competition with each other. Larger ones would extend their power over smaller ones, and ultimately the world would have only a few very large and extremely powerful states. He envisioned in Europe a superstate controlled by Germany.

During the mid 19<sup>th</sup> century – Geopolitics developed as new developments in science and technology led people to take a broader view of the world than they had previously. Famous Thinkers of this period were – Friedrich Ratzel (1844-1904), Alfred Thayer Mahan (1840-1914) Sir Halford J. Mackinder (1861-1947). Nineteenth century



was a break-through in the development of geopolitics. Geographer, Political Thinker and the Architect of foreign policy started to put attention on Geopolitics.

Alfred Thayer Mahan (1840-1914)<sup>8</sup> was a prolific writer and composed around twenty books. His famous books were *The influence of Sea Power upon History, 1660 – 1783* (1890) and *The French Revolution and Empire, 1793-1812* (1892). The aim of thinking of Mahan was concerned with trying to find pattern in state development and behaviour at world arena. He argued that control of the sea lanes to protect commerce and wage economic warfare was very important to a state. He advocated a big navy or sea power. He<sup>9</sup> said– there were six fundamental factors that affected the development of the state and maintained the importance of sea power in the study of the state. These Fundamental factors are-

*Geographical position* (location) – whether a state possesses coasts on a sea or ocean (or perhaps more than one), whether these waters are interconnected; whether these waters are interconnected; whether it also has vulnerable, exposed land boundaries; whether it can maintain overseas strategic bases and command importance trade routes.

*Physical Conformation of the State* – whether the coastline of a state possess natural harbors, estuaries, inlets and outlets. An absence of harbors will prevent a people from having its own sea trade, shipping or navy.

*Extent of territory* (Length of the Coastline)- The ease with which a coast can be defended.

*Population numbers* – A state with a large population will be more capable of building and maintaining a merchant marine and navy than a state with a small population.

*National character*- It was aptitude for commercial pursuits. Sea power is really based upon a peaceful and extensive commerce.

*Governmental character* – Whether government policy is taking advantage of the opportunities afforded by the environment and population to promote sea power.

Mahan emphasized sea power as crucial key in geopolitics. He argued – United States should occupy the Hawaiian Island, take control of the Caribbean and build a canal link the Atlantic and Pacific Oceans. Mahan argued in his later book- *The problem of Asia*, Core area is Asia and Russia is dominating in this area. He predicted a struggle between Russian land power and British sea power. He also said British sea power would be able to contain Russian land power.

Sir Halford J. Mackinder (1861-1947)<sup>10</sup> introduced the concept of *Heartland*. And this concept was explained was in his paper *The Geographical pivot of History (1904)*. The concept of Mackinder of Heartland was –Eurasian area. He argued the rivers of Heartland's rivers drain into the Arctic, distances to warm-water oceans are huge, and only the Baltic and Black sea could form avenues for sea power penetration, but these are easily defended. World Island was referred to Far East, South Asia and Europe. He presumed that the Pivot Area contained a substantial resources base, capable of sustaining a power of world significance. The key, he argued lay in Eastern Europe, the "open door" to the pivotal Heartland. Thus he formulated his famous hypothesis-

*Who rules East Europe command the Heartland.*

*Who rules the Heartland command the world island.*

*Who rules the world- Island command the world.*

Nicholas John Spykman (1893-1943)<sup>11</sup> criticized the concept of heartland of Mackinder. Spykman argued in his books – *America's strategy in world politics* (1992) and the *Geography of the Peace* (1944) – real power potential of Eurasia lay in *Rimland*. Rimland (Glassner M.I. and Deblij: 1980: 267)<sup>3</sup> area is vulnerable to both land and sea power and must operate in both modes. Historically alliances have always been made among Rimland powers or between Heartland and Rimland power. What Mackinder had called – inner or Marginal crescent, Spykman called this area – Rimland. Spykman said –

*Who controls the Rimland rules Eurasia.*

*Who rules Eurasia, controls the destinies of the world.*

Karl Haushofer (169-1946)<sup>12</sup> introduced the concept of *Geopolitik*. He compiled the organic state theory of Ratzel and the geostrategic principles of Mahan and Mackinder altogether. He also attempted to create geo-jurisprudence, geo- medicine and geo- psychology. But these concepts were not branch of geography. These concepts were related to formulation of the foreign policy of Germany. Geopolitik emphasized on planning, especially with regard to natural resources. Outside Germany, Geopolitik found ground in Japan. A few of ideas of Haushofer have been accepted in Japan- the extensive use of maps to convey ideas, concept of propaganda and psychological warfare, of total war and of the importance of air power. Geopolitik as such died with the collapse of Nazi, Germany in 1945.

Major Alexander P. Deserversky (194-1974)<sup>13</sup>, born in Russia, served in the Russian Navy during world War-I. The famous books of Major Alexander P. Dserversky are *Victory Through AIR Power (1942)* and *AIR Power: Key to Survival (1950)*. He advocated the supremacy of Air power and land. He said- Sea power is subordinate to Air Power and land. He advised to the United States to develop massive Air superiority. He advocated defense of Western Hemisphere avoidance of small wars as useless sapping of American strength, abandonment of overseas bases as costly luxuries. He used a map drawn on an azimuthal equidistant projection centered on the North Pole to show clearly how close to Unites States and Soviet Union really is. He said the region of North Polar as 'Area of Decision. As a result of this concept (Area of Decision) United States and Canada erected at great expense three lines of radar stations and air base stretching across Alaska and Canada for the defense of North America against attack from the USSR by the shortest routes – over the North Pole.

The American Geographer Donald W. Meinig<sup>14</sup> developed the modify version of rimland of Spykman in 1956. British Geographer David J.M. Hooson<sup>15</sup> developed the modify version of heartland theory of Macknider in 1964. Donald W. Meinig said – Heartland and Rimland in Eurasian History, there is more variety and Flexibility within the Rimland than Spykman had recognized and proposed a '*Continental*' Rimland

composed of states, that were oriented inward (toward the heartland) and a 'Maritime' Rimland of outward oriented states. Since this situation is dynamic, not static, Donald W. Meinig also proposed a category of neutral or transitional states. David J.M. Hooson redefined the Heartland in terms of such criteria as the rate of population growth and rate of urbanization location of accessible resources, specialization in both agriculture and industry, ethnic factors and historical association and cohesiveness; in short, the scale of contribution to the soviet economy of various parts of the Heartland. He concluded that the Heartland now should be considered as a core around Moscow and the Black sea, and a significant Volga-Baikal region, It is this eastern zone that Hooson view's as critical, considering that what happens there might well be decisive in the future of the Soviet Union as a World power.

Saul B. Cohen (1973)<sup>16</sup> in his *Geography and politics in a world Divided* – considered the entire world as being divided into geostrategic region in his famous book- *Geography and Politics in a World Divided (19730)*. He takes the Americas into account as well as new technology and aims at global equilibrium. 'The major premise of the work is that the dynamic balance that characterizes relations among states and larger regions is inherent in the ecology of the global political system. This world is organized politically in rational, not random, fashion. He rejects the notion, popular in the immediate postwar period, that spheres of influence are obsolete even reprehensible. He insists, in fact that "sphere of influence is essential to the preservation of national and regional expression." His geostrategic regions are essentially the spheres of influence of the United States, Maritimes Europe, the Soviet Union and China. He still preserves the concept of maritime and continental powers, but expands it to include in the "Trade Dependent Maritime World" all of the Americas, all Western Europe, all Africa except the far Northeastern corner, and all of offshore Asia and Oceania. In the "Eurasian continental power" it was all the Soviet Union and Eastern Europe, and Eastern and Inner Asia. He classified South Asia as an independent Area. He identified the Middle East and Southeast Asia as Shatter belts. The term "Shatter belt" or "Shatter Zone" has customarily been applied to central and Eastern Europe, a region of chronic instability in which states appear, disappear and reappear with frequently changing names and

boundaries. Cohen has omitted reference to this original shatter belt in deference to its partition in the 1940s between Soviet and American power systems. His new ones are quite justified in view of their chronic instability, but not the omission of central and Eastern Europe. The current stability of this region may be deceiving. The ancient rivalry and animosity have been temporarily suppressed by communist togetherness. Even in the Former French Indo-China, where all three states (Laos, Kampuchea and Vietnam) are under communist rule, all three are fighting rebels or one another. Shatters belts do not disappear very readily. He advocates the maintenance of the unity of Europe and the Maghreb by "subtle economic and political persuasion", rather than by Force. This emphasis on cooperation, on economic power on persuasion and propaganda is a realistic summation of actual trends in the postwar period, trends which go on, as it were under an umbrella of nuclear missiles and space satellites.

Lin Piao<sup>17</sup> (late Defense Minister of China) expounded a theory of world revolution in 1965. In this theory, he viewed the world as similar to a city and the surrounding countryside. The rich industrialized, largely Western Countries represent the city and the poor agricultural countries, Poor Countries were largely former colonies of the Western Countries. The poorer areas will gradually be converted to communism and using tactics similar to those described by Cohen but supplemented by guerrilla warfare, will confront and eventually overwhelm the cities.

### **Caspian Sea-**

Caspian Sea is a unique body of water with characteristics that have prevented accurate geological and legal classification. The body of water has been called a lake, an enclosed sea, a closed sea and an inland sea. Regardless of the identification, the Caspian Sea is the largest inland body of water in the world and is approximately the size of Japan. It covers an area of about 10,000 Square Kilometers with a depth of about 1,000 meters. The Caspian sea can be divided into three zones on the basis of depth and water currents (Sanei, Faraz: 2001; 693).<sup>18</sup> The northern zone constitutes twenty eight percent

of the total area and has an average depth of 6.2 meters. The water flow is clockwise. The middle zone constitutes thirty-six percent of the total area and has an average depth of 176 meters. The Southern Zone accounts for the remaining thirty-six percent of the surface area and average 325 meters in depth. An underwater ridge divides the sea into two halves of which the shallower north is almost salt free. It lacks any direct outlet to the open sea. It is linked to the Black and Baltic seas through the Volga River and a series of canals and other waterways. In present time, Caspian Sea is locked by the five states – Russia, Iran, Azerbaijan, Kazakhstan and Turkmenistan. During Soviet period, there were only two states that belong to littoral states of Caspian Sea- Iran and the USSR. The USSR had 84% share of coastline of Caspian Sea. According to 1921 and 1940 the Soviet –Iranian Treaty, both countries had been enjoying their right in Caspian Sea region since disintegration of the USSR. Present share of coastline of all five littoral states of Caspian sea, roughly as follows<sup>19</sup>- Russia – 18.5%; Kazakhstan – 30.8%; Turkmenistan – 16.8%; Azerbaijan – 15.2% and Iran – 1.7%. South Caspian region is the deepest part of the sea. Its South-western, and northeastern shores have yielded the most productive hydrocarbon reserves. The sea is approximately 700 miles length and contains an average of six separate hydrocarbon basins. The most promising oil producing area is in the south Caspian along a narrow structural zone extending across the Caspian from the Aspheron Peninsula of Azerbaijan to the Peri Balkhan region of Western Turkmenistan.. Currently most of Azerbaijan's oil resources are located offshore, as are about thirty to forty percent of the total oil resources of Kazakhstan and Turkmenistan. No significant oil and gas discoveries have seen made off the Iranian coastline which represents the deepest and most treacherous coastline of any littoral states. The Russian coastline has been proven relatively unproductive in yielding significant oil and gas deposits.

Around the rim of the Caspian Sea different people and cultures have for centuries converged, overlapped and intermingled. Archaeological evident (Akiner, Shirin; 2004; 03)<sup>20</sup> reveals traces of human settlements in the South West that date back to prehistoric times. Some 3,000 years ago, the Southern littoral was colonized by Iranians (ancestors of the modern Iranians, also of the Talysh who lived in the lowlands between Lenkoran and Astara). Further north, the mountains of Daghestan that stretch

along the western coast were home to indigenous peoples of the Caucasus. Today, there are over a dozen distinct Caucasian groups in the Coastal region. The most numerous groups are the Avars, the Lezhins and the Darghins. Further inland, there are Chechens and Ingush. In the seventh century A.D., Arab Army conquered, and for a while occupied, Iran and the Caucasus. This was the start of the Islamisation of the region. At approximately the same period, there was heavy Turkic immigration into the Caspian basin. Over the next 500-odd years, consecutive waves of Turkic groups (among them the Forebears of the modern Azerbaijanis, Kazakhs, Tatars and Turkmen) settled around the sea, with a strong concentration in the South West (present day Azerbaijan). The slave presence dates from the mid-sixteenth century. It followed Ivan the Terrible's conquest of the Tatar Khanate of Astrakhan (on the lower reaches of the Volga River) in 1556, which established a Russian foothold on the Caspian rim. In the mid-seventeenth century another ethnic elements was added when Kalmyk Mongols from central Asia settled in the coastal steppe to the south of the Volga estuary. In the twentieth century especially during the Soviet period, there was further immigration into the region, introducing yet more cultural and ethnic variety.

Almost all the territory that had formerly belonged to the Russian empire was incorporated into the Soviet Union in the early 1920. Shortly after a national delimitation was carried out, as a result of which four union Republics were created around the Caspian sea<sup>21</sup> – the Azerbaijan, Kazakh and Turkmen Soviet Socialist Republic (SSRs) and the Russian Soviet Federative Socialist Republic (RSFSR). The part of the RSFSR that bordered the Caspian sea included the territory of the Kalmyk and Daghestan Autonomous Soviet Socialist Republics.

There has been crucial question on division of the Caspian Sea. Time to time littoral states has made agreements to divide the Caspian Sea. From the early seventeenth century, the Caspian Sea was divided between Russian and Iranian sphere influence. Iran was never a naval power in the Caspian Sea, Activities of Iran were for the most part restricted to commercial navigation and to inshore fishing. The only exception was when Nader Shah (1736-1747) succeeded, despite Russian attempts at Sabotage to construct a

shipyard on the Caspian coast in 1742 and to launch the first Iranian gunship in the Caspian Sea. For Russia, the Caspian Sea was the 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 five Persian province on the south and east bank of the 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 the Russo-Iranian war fronts during the Caucasian wars of 1804-1812 and 1826-1828 (Granmayeh, Ali; 2004; 17).<sup>22</sup>

To give a concrete brief of the Caspian Sea's division, we can classify them into **two phases-first phase**, before disintegration of the USSR and **second phase**, after disintegration of the USSR. Before disintegration of USSR, Caspian Sea was the sphere of influence between two states i.e. the USSR and Iran (Persia). Both countries had come up with agreements to divide Caspian Sea region. These agreements were – Peace Treaty of Golestan (Gulistan), 12 October 1813; Peace Treaty of Turkmanchai, 22 February, 1828; Treaty of Friendship between Persia and Russia, 26 February 1921 and Agreement on Trade and Navigation between Iran and the USSR, 25 March 1940. Peace Treaty of Golestan was the first agreement between the Russian and Iranian governments over the Caspian Sea. Article 5 of the treaty stipulated that “Except for the Russian state”, no other state may have a military flag on the Caspian sea. According to article 5 of Gulistan Treaty, there were equal privileges to Russian and Persian merchant vessels to navigate the sea and enter each other's harbours. But in the subject of naval warship, the USSR had supreme position. Article 5 clearly said, “The Russian flag shall fly over Russian warships, which are permitted to sail in the Caspian sea; except Russia, no other nation whatever shall be allowed warship in the Caspian”.

Peace Treaty of Turkmanchaj was signed between Russia and Persia. Article 8 of this Treaty provided the same privileges of the Treaty of Golestan to Russian and Persian vessels. In addition, Persian vessels sailing the Caspian Sea were permitted, in the event of Shipwreck, to enter Russian rivers to receive aid and assistance. Article 8 also reaffirmed Russian naval superiority and denied Iran the right to maintain gunboat in



the Caspian sea: 'As For War Vessels, those which bear the Russian military flag, being *ab antiquo* the only ones which have had the right to navigate on the Caspian Sea, this same exclusive privilege is for this reason; equally reserved and assured today, so that, with exception of Russia, no other power shall be able to have war vessels on the Caspian sea.<sup>23</sup> Treaty of Friendship was signed between the new Soviet Regime and Iran. Most important statement of this treaty was article 11. Under this article, both countries Iran and Russia got equal privilege in merchant and naval warship vessels under their own flag. This article said the two high contracting parties shall enjoy equal rights of free navigation on the sea, under their own flags, as from the date of signing of the present treaty. Agreement on trade and Navigation between Iran and the USSR (23 March, 1940) represents the most detailed and comprehensive set of rules regarding legal relations between the two states in the Caspian Sea. First, the Treaty reserved a ten mile fishing zone for each state adjacent its coast and for its own flag vessels. Second article is reemphasized earlier notions of Caspian exclusivity by declaring that only the ships of the two littoral states belonging to their citizens and trading agencies were authorized to navigate the sea. Notes attached to the 1935 and 1940 treaties reinforced this notion of exclusivity by declaring that the Caspian "is regarded by the two Governments as a Soviet and Iranian sea. In this Treaty, there was also provision to suppress third party. This treaty said – since the Caspian Sea regarded by both contracting parties as a soviet-Iranian sea, is of exceptional interest to the contracting parties. It is agreed that the two governments will take the steps necessary to ensure that citizens of third countries employed on vessels belonging to the contracting parties, or on their ports on the Caspian Sea, shall not use their employment or presence in these vessels and ports for purpose outside the duties of their employment."<sup>24</sup>

### **Legal Status of Caspian Sea**

After the disintegration of the USSR five littoral states were emerged at the surface of Caspian region – Russia, Iran, Azerbaijan, Kazakhstan, and Turkmenistan. After disintegration of USSR, it is crucial and question of deadlock "how Caspian Sea will be divided among new littoral states". Each of littoral state has different attitudes

and ambitions regarding the share of Caspian Sea and resources. Azerbaijan proposed defining the Caspian Sea a border lake and to divide it into national sector. Kazakhstan proposed to define Caspian as enclosed sea and to apply the Convention on the Law of the Sea of 1982. Russia and Iran rejected both proposals, reminding the other littoral states the agreement of 1941 was still in force. Russia and Iran continued to promote the old regime as laid down in the 1921 and 1940 treaties because both wished to maintain their historically dominated regional position. Overall, the Russian reacted negatively to changing the sea's legal status, stating that the Caspian Sea is neither a border lake nor an enclosed sea but rather a unique inland water basin (Amineh, Mehdi Parvizi and Houweling; 2007; 359).<sup>25</sup> Russia and Iran reassured by the Alma-Ata declaration (21 December 1991), which confirmed that the other littoral states would observe the international agreement of the Soviet Union, thus including the Soviet-Iranian treaties of 1921 and 1940 on the Caspian Sea. Tehran and Moscow stressed that the joint utilization of the Caspian Sea. Iran proposed the formation of a regional organization of littoral states to co-ordinate all activities relating to fisheries, oil and gas exploration, transport and the prevention of pollution in the Caspian Sea. This initiative was discussed at a meeting of experts from the five states in Tehran in October 1992. It was decided that a body of experts would study the responsibilities of the projected organization, then report back to their respective governments. In 1994 representatives of the Caspian states met in Moscow, the formation of a regulatory regional organization was mentioned favourably, but no agreements was signed on this issue. During 1992-93 Turkmenistan adopted a law on its international frontiers, terrestrial and maritime according to which coastal waters, territorial sea and an exclusive economic zone was established. That same year Turkmenistan signed a contract with foreign companies for the development of the Cheleken offshore. Field in the eastern Caspian, Kazakhstan advocated the rules of United Nations Conference on the law of the sea (UNCLOS 1982), called for a full division of the Caspian Sea into national sectors. Subsequently, Kazakhstan claimed a sovereign right in its territorial waters, as well as an exclusive economic zone in the Caspian Sea. The Kazakh draft asserted that the inner borders of territorial waters of each zone of the Caspian Sea are regarded as the state borders of the littoral states and are

guaranteed by respective demarcation schemes and elements of reconnaissance. The Kazakh document (Ali, Granmayeh; 2004; 20)<sup>26</sup> also described the exclusive zone as a bordering zone up to 200 miles, with regard to which the littoral state is entitled to enact laws regarding the rights to disclosures, processing and preservation of natural resources. Azerbaijan adopted a more ambitious agenda. In 1992, Azerbaijan declared its opposition to the Russian-Iranian concept that the new legal status of the Caspian Sea should be decided on the basis of the 1940 Soviet-Iranian Agreement. Azerbaijan signed a unilateral agreement with an international consortium on 20 September 1994 for exploration and production of oil and gas. This agreement is known popularly as “the Contract of the Century”<sup>27</sup> It was a 30 year project for the development of three offshore fields- Azeri, Chirag and deep water Guneshli. Russia and Iran harmonized their objection to this agreement, stressing that Azerbaijan had no right to sign such an agreement. Russian Deputy Foreign Minister Albert Chernisheve described Azerbaijan’s exploitation of Caspian oil without the permission of other littoral states as “robbery”. Russia modified its statement about Azerbaijan’s plan in August 1995 when Russian ambassador to Turkey, Vadim Kuznetsev had said- Russia was ready to modify its position on the legal status of the Caspian sea, if Azerbaijan agreed to export its oil through the Russian pipeline (Granmayen, Ali; 2004; 17).<sup>28</sup> Russia approached to Iran on the issue of division of Caspian Sea. In October, 1995, Russian Deputy Foreign Minister Alexander Boshakov discussed with Iranian officials in Tehran a draft proposal on the legal status of the Caspian Sea this stipulated that each Caspian littoral state should be allocated 10 miles of marine territory exclusively for the seabed mineral exploration and another 20 miles territory for fishing. Concerning the exploration of the free sea beyond these territories, it was proposed that a board comprised of representative of the five littoral states of the Caspian Sea should issue the necessary permits for fishery, mineral exploration and oil drilling.<sup>29</sup> Iran neither approved nor rejected this proposal. Iran was still adamantly opposed to any division of the Caspian Sea, In the “joint declaration on Caspian sea issue (joint declaration on Caspian sea issue and joint declaration on co-operation in the use of the Caspian sea was signed by the President of the Republic of Kazakhstan and the President of the Islamic Republic of Iran in Tehran on 11 May 1996,

no decision was made about the status of the Caspian sea. The first article of the declaration said- 'The parties consider that the 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 the utmost importance which must not be delayed.

After disintegration of the USSR, all five littoral states of Caspian Sea were unable to set up universal agreement. Each state has different motives behind the agreement. Each littoral state wants to occupy the maximum monopoly over the hydrocarbon resources of Caspian sea. Therefore, time to time, littoral states have been changing their position. Here, there is brief behaviour of all littoral states after disintegration of the USSR. Azerbaijan is adamant littoral state in Caspian region. Azerbaijan has huge stake in Caspian region. Common ownership of the sea and its resources effectively means the loss of control and a threat to the very well-being and independence of the country. So, Azerbaijan is in the favour (Sanei, Faraz: 2001; 755)<sup>30</sup> of Third UN convention on the law of the sea (UNCLOS, 1982). The official Azeri position is- (a) that the seabed must be divided on the bases of the equidistance or medium line, (b) principle the Soviet-Iranian Treaties of 1921 and 1940 are inapplicable to mining rights and regulate only fishing and navigation routes; (c) the Soviet union divided the Caspian into Iranian, and Soviet zones by drawing a boundary line across the sea between Astara and Hosseinghali and further dividing the Soviet sector among Azerbaijan, Russia, Kazakhstan and Turkmenistan; (d) the Azerbaijan Majlis or Parliament and the constitution have codified the principle of Sovereignty over the Azerbaijani sector of the Caspian. Kazakhstan is the second most consistent part arguing for general application of the UNCLOS, but its position is distinguished from Azerbaijan in that it has pursued diplomatic compromise in order to ensure that its legal right to exploit its "sector" of the Caspian remains intact.<sup>31</sup> The official Kazakh position can be summarized as follow – (a) the Caspian is a sea and thus falls under the UNCLOS regime; (b) littoral state borders should include territorial waters extending twelve miles offshore; (c) the rest of the sea must be divided into exclusive Economic Zone – EEZ. Like Azerbaijan, Kazakhstan referred to Moscow's 1970 decision to administratively divide the Caspian among the Soviet republics in order to bolster its position regarding

delimitation. Based on this median-line division administered by the Soviet Ministry of Oil Industry, Kazakhstan would receive the most beneficial condition-approximately 113,000 square km. of the Caspian surface. Turkmenistan's legal position on the Caspian is difficult to assess. In October 1993, it was the first littoral state to pass a law that declared its jurisdiction over a twelve mile territorial sea. In November 1995 Turkmenistan proclaimed the Caspian to be a unique body of water to which all littoral states should have access. A year later Turkmenistan seemed to move closer to the Azeri and Kazakh positions calling for sectoral division of sea. In 1997, Niyazov assured Moscow and Tehran that until consensus on a legal regime for the Caspian is reached Turkmenistan would abide by the provisions of the Soviet-Iranian Treaty. Despite the generally ambivalent stance, Ashqabad has taken on the legal status of the Caspian. However, two events have forced it to take a more vocal stand on the issue. The first event that caused Turkmenistan to reconsider its ambivalent, views on the legal status of the Caspian occurred in the summer of 1997, when Azerbaijan executed in joint venture agreement with Russia over the development of the disputed Kaipaz-Serdar oil field. Azerbaijan had already rejected Turkmenistan's earlier claims that part of the Azeri and all of the Chirag Offshore fields actually fell within Turkmenistan's 'sector' of the sea. This time Turkmen authorities threatened to take their case to the United Nations or the International court of justice. Turkmenistan insisted that both the Azeris and the Russian invalidate the development agreement over the Kaipaz-Serdar field and hold off on any further agreement until the legal status of the Caspian is resolved. The second event involved the late-developing relationship between Turkmenistan and the United States regarding the possibility of constructing a bans-Caspian gas line. By 1998, Turkmenistan seemed that sectoral division of the Caspian would be best economic future for Turkmenistan. Sectoral division of Caspian Sea floor will allow Turkmenistan and Azerbaijan to lay pipelines across their respective seafloor. This is so because sectoral division provides corporate confidence in the legal environment that preserve corporate confidence. In the legal validity of ambitious projects such as the TCP- Trans Caspian pipe line. TCP project caused a rift between the legal views of Iran and Russia at the one hand, and Turkmenistan at other hand. Prior to United States overtures enticing

Turkmenistan to consider a “Western route” for its gas, Turkmenistan desired close ties with Russia (and Iran) and its views were generally thought to be in line with theirs. Though Turkmenistan has shown its official support more than once for a Russian Iranian conception of the Caspian, Russia and Iran could no longer rely on Turkmenistan after 1992 (TCP project was launched in 1998). Russia has always viewed the Caspian as a unique body of water and has thus attached a “special rights” status to development of its natural resources.

Legally, Russia<sup>32</sup> corroborated or supported this stance in two ways. It based its argument on the theory that the continuing validity of the Soviet Iranian Treaties of 1921 and 1940 required joint utilization of the sea’s resources. Second, Russian legal arguments centered at the status of lake that the UNCLOS does not applicable to the Caspian Sea because it is not essentially to a landlocked lake. Russia argued that all resources should be governed by a condominium system allowing equal access to all littoral states. Russia, the original champion of the condominium theory has in recent years drastically changed its position on the status of the Caspian. The shifting Russian legal strategy is a result of several internal and external dynamics motivating Russia to seriously reconsider its policies in the Caspian. On November 12, 1996, Russia officially signaled its willingness to consider sectoral division of the sea by proposing to recognize a legal regime that allowed an exclusive forty-five nautical mile economic zone for all littoral states. Russia also expressed willingness to consider national jurisdiction of the sea beyond the Forty-five mile limit where drilling had already begun. According to the proposal, however, all other surface and subsurface areas of the sea would be commonly owned and managed through the establishment of joint-stock companies of the five littoral states. Also, the proposal included a “double-tender” system giving the littoral states first bids to all development fields in the Caspian ahead of non-littoral actors. Essentially this system would allow any one of the littoral states to veto the entry and involvement of outside national or corporate powers into the area. In February 1998, Russian Foreign Ministry special Envoy Feliks Kovalev made the surprising announcement that Russia was ready to carry out “a fair division of the Caspian seabed” and by July, 1998 Russia signed an agreement with Kazakhstan dividing the Northern

part of the Caspian. In the face of Iranian concerns that Russia was quickly abandoning its original stance on multilateral consensus and common ownership, Russia denied that the Kazakh agreement created a "special status" for the northern part of the Caspian. Yet after 1998 Russia continued to make official statements seriously undermining its earlier position rejecting any sectoral division of the Caspian. Russia still contends that beyond a narrow territorial and an exclusive economic right ozone (including fishing) the waters are to be joined in common. In other words, any acquiescence regarding sectoral division only applies to a limited area of the seabed. Therefore, such a dual regime "compromise" many still pose a serious challenge to the ownership rights of all littoral states because it would effectively give Russia legal veto power over any development beyond the exclusive zone. The legal stance of Iran<sup>33</sup> is tempered by several geopolitical and economic realities. First is the realization that due to its relatively small Caspian coastline sectoral division based on the equidistance and median line principles would give Iran a small piece of the Caspian pie. Second is the discovery that Iran's shore do not appear to held significant hydrocarbon reserves. Iran does not want the Caspian to become another Persian Gulf- it fears that an open door policy especially with regard to American Corporations means that direct American involvement in Caspian affairs is not far way. In the view of Iran, this is a direct challenge to the sovereignty of Iran in the region. In late 1997 Iran announced that it would soon open its sector of the sea to development by international oil companies. In 1998 Iran announced that Anglo-Dutch shell and British Losmo had signed a major deal to develop oil and gas exploration in Iran's "Sector". After the deal, Azerbaijan issued a strong statement claiming that Iran's actions were illegal because the proposed oil and gas field fell within Azerbaijan's "sector" of the sea. To spite Baku Iran rejected the contention and sarcastically remained Azeri officials that the confusion was the result of the failure of the littoral states to reach multilateral consensus on an acceptable legal regime for the Caspian. Iran and Russia both seen to restrict pure sectoral sovereignty in order to increase their control over regional energy issue, one by claiming joint sovereignty over the waters of the Caspian, the other by rejecting the equidistance principle of delimitation, altogether.

## **Caspian is Sea or Lake?**

It is crucial question among littoral states of Caspian region that what should be the status of Caspian Sea. Is it sea or lake, semi closed sea? Two littoral states of Caspian Sea – Azerbaijan and Kazakhstan demand that the legal status of Caspian Sea should be governed by UNCLOS – United Nations Convention on the Law of sea. UNCLOS provide guideline for the sea. How and who can enjoy the right and jurisdiction on sea. This law gave exclusive jurisdiction to coastal states. Basic idea of UNCLOS is about delimitation. Delimitation is the legal science of dividing sea territory between neighboring coastal states that share common waters, especially if they are geographically positioned adjacent or opposite of each other. Delimitation also created varying degrees of control for individual coastal states – the further one travels from the littoral states coastline the less jurisdiction control the state can exercise over the waters and subsurface resources.<sup>34</sup> In the reference of Caspian sea region it is important to note that none of littoral states of Caspian region are parties to the UNCLOS, although the Soviet Union was a party to 1958 Continental shelf Convention which authorizes application of the equidistance principle regarding the continental shelf in the absence of agreed upon delimitation.<sup>34</sup> The applicability of the UNCLOS- 1982<sup>35</sup> convention to the Caspian Sea is suspect because there is no geological consensus on whether the sea contains a continental shelf nearly a continental depression. Directly, UNCLOS does not applicable to the Caspian Sea. Article 1, 2 and 122 said UNCLOS will be applicable in subject of enclosed, semi-enclosed or open sea. Caspian Sea is landlocked sea. So, it does not fall under article-1(UNCLOS- 1982);<sup>36</sup> article-(UNCLOS:1982)<sup>37</sup> and 122(UNCLOS: 1982)<sup>38</sup> of UNCLOS. UNCLOS Conventions rules do not apply to lakes, bays and other hydro geological features as a matter of law. Caspian Sea region does not fulfill the criteria of UNCLOS (Sanei, Faraz;2001; 797).<sup>39</sup> Even if the UNCLOS does not apply to the Caspian Sea as a matter of international law, it may still present the best legal regime model for the Caspian. In other words, the basic principle of delimitation may still be the most practical and equitable solution even if the Caspian is characterized purely as a land locked lake.



Under the UNCLOS Brice Caglett<sup>40</sup> represent the model of delimitation of Caspian sea. The model of Caglett takes into account several delimitation tools and the general principle of equity and proportionately as required by the UNCLOS. Caglett posits that a hypothetical international tribunal assigned the task of delimiting the Caspian will approach the matter by drawing equidistance lines between all littoral states, regarding such lines as the tentative boundaries. The court will examine the tentative boundaries from the standpoint of equity and proportionality. It will conduct this study by first determining the lengths of the coastlines it considers relevant and then deciding what maritime space to assign to each coastline. Next the court will calculate how much of the relative maritime space is assigned to each party by the proposed boundaries it is considering. The measurement will produce the following results: Azerbaijan:-21,999.00 nautical square miles of coastline (nsm) and 20.7 percent of total Caspian Sea (percent); Iran – 15,470.70 nsm and 14.6 percent; Kazakhstan – 31,706.90 nsm and 29.90 percent; Turkmenistan – 20,379.8 nsm and 19.2 percent. Whether present roughly share of coastline of littoral states of Caspian sea is following – Azerbaijan 15.2%; Iran – 18.7% Kazakhstan – 30.8%; Russia – 18.5%; Turkmenistan – 16.8%. Since Russia and Iran will lose their share in Caspian Sea, region according to Brice Caglett model and Azerbaijan and Turkmenistan will be beneficiary. But in the situation of Caspian Sea region, the real problem is acquiring more or more hydrocarbon resources area in Caspian Sea. So there is crucial problem, real politics is politics of hydro carbon resources.

Indirectly, UNCLOS also gives framework for littoral states of Caspian sea.<sup>41</sup> According to principles of the UNCLOS, each of the five littoral states would retain full sovereignty over a twenty four nautical mile territorial sea (including the contiguous zone). Each littoral state will have exclusive control of air space and subsoil resources within such a Twenty-four mile buffer zone. Beyond the territorial sea, each littoral state will have an EEZ Exclusive Economic Zone, where they may exercise the right to explore, exploit, conserve and manage living and non-living (or hydrocarbon) natural resources of the seabed and subsoil. All littoral states however, will enjoy the right of free navigation and over flight and the laying of submarine cables and pipelines. Beyond the

agreed upon EEZ, however the principle of commonage would apply to the Caspian's Waters.

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27. Contract Of the century was signed on 20 September, 1994 in Baku between Azerbaijan International Operating Company- AIOC, a consortium of oil companies led by British Petroleum- BP and the Azerbaijani State Oil Company- SOCAR. Russia joined this project later and Luk Oil (Russia Company) eventually allocate 10% share. The latter not only provided technology to implement the Chirag project but also the necessary self- financing to build it along with 5 countries such as United States, United Kingdom, Norway, Turkey, Russia and Saudi Arabia. The investor were the American Amoco (17%), Pennzoil (4.8%), Unocal (9.5%), Exxon (5%), Russian Luk Oil (10%), Norwegian Staatiol (8.5%), Japanese Itochu (7.45%), British Ramco (2%), Turkish TPAO (6.75%), Saudi Arabia's Delta (1.6%), and Azerbaijani State Oil Company (10%). Nuri, Dr. Maqsudul Hasan; *Pipeline Diplomacy In Central Asia: Problems And Prospects*; Regional Studies; winter 2000- 2001, vol-.19,no- 1, page no.- 43.

28. Ali, Granmayeh (2004); Legal History of the Caspian Sea; In Akiner, Shirin (edit), *The Caspian – Politics, energy and security*; New York, Routledge Curzon, page no.- 17..
29. Ibid.; “In October, 1996 Foreign Minister, Velayati disclosed that new proposals had been put forward on the status of the Caspian sea. He welcomed them as a sign of flexibility on the part of all the coastal states and the first step to resolving the matter (Tehran Times; October 16, 1996). The oppositions were as follows- (a) that, the subsoil and its resources should be shared equally by the five littoral states. (b) that, the coastal margins should be allocated to the coastal states, the rest of the sea to be shared in common by the five littoral states, (c) that, each coastal state should be allowed to extend its margin from the traditional 12 miles limit to 40 miles, the rest of the sea be shared in common among the littoral states (Iran News, October 24, 1995).” Page no. 42.
30. Sanei, Faraz; The Caspian Sea Legal Regime, Pipeline Diplomacy, and the Prospects for Iran’s Isolation from the oil and Gas Frenzy: Reconciling Tehran’s Legal Option with its Geopolitical Realities; *Vanderbilt Journal of Transnational Law*, Volume- 34:681, No.- 03, May,2001, page no.- 755..
31. Ibid.
32. Ibid.
33. Ibid.
34. Ibid.
35. The First United Nations conference on the Law of Sea was convened in Geneva in 1958. The meeting resulted in the adoption of four conventions on- the Territorial Sea and Contiguous Zone, the High Sea, the Continental shelf and the Fishing and Conservation of the Living Resources of the High Sea. The second conference on the Law of Sea convened in 1960 for the sole purpose of reaching consensus on the breadth of territorial sea. But, it did not succeed. Finally, United Nations Convention on Law of Sea was adopted on April 30, 1982.

36. Article one of UNCLOS- “Area” means the seabed and ocean floor and subsoil thereof, beyond the limits of national jurisdiction.-  
[http://www.un.org/Depts/los/convention\\_agreements/texts/part1.htm](http://www.un.org/Depts/los/convention_agreements/texts/part1.htm)
37. Article Two of UNCLOS- “Authority” means the Seabed authority-  
[http://www.un.org/Depts/los/convention\\_agreements/texts/part1.htm](http://www.un.org/Depts/los/convention_agreements/texts/part1.htm)
38. Article One Hundred Twenty Two of UNCLOS- For the purpose 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 constitng entirely or primarily of the territorial seas and exclusive economic zones of two or more coastal States.-  
[http://www.un.org/Depts/los/convention\\_agreements/texts/part1.htm](http://www.un.org/Depts/los/convention_agreements/texts/part1.htm)
39. Oxman, supra note 22 ,arguing that while the law of sea are not directly applicable to the Caspian Sea Situation, the principle of UNCLOS may be helpful in drawing up a legal regime for the Caspian. Sanei, Faraz (2001); The Caspian Sea Legal Regime, Pipeline Diplomacy, and the Prospects for Iran’s Isolation from the oil and Gas Frenzy: Reconciling Tehran’s Legal Option with its Geopolitical Realities Vanderbilt Journal of Transnational Law, Volume- 34:681, No.- 03, May,2001, page no.- 797.
40. Ibid; “ Caglett concedes that the history of the Caspian establishes special historic rights, titles and de facto boundaries’ that require modification of a straightforward equidistance delimitation, but assert that the general equidistance model can accommodate these peculiarities by allowing the littoral states to enter into negotiations to establish more flexible boundary lines that satisfy their unique needs. Caglett points out that in former USSR each soviet republic was allocated a sector of the sea to administer, and the NIS(Newly Independent States) have up to now respected these de facto delimitation. After drawing the boundary lines pursuant to a straightforward application of the equidistance principle. Caglet contends that a hypothetical court would adjust the lines to ensure that “boundaries exist with reference to these historic and traditional administrative areas of responsibility; that the administrative internal boundaries were

'transformed into international frontiers' on the dissolution of the USSR, and that those boundaries should be respected pursuant to established precedents and the principles of acquiescence and estoppel." page no.-799.

41. Ibid.

## CHAPTER- TWO

### ENERGY RESOURCES IN CASPIAN SEA AND POWER POLITICS

#### Historical Background of Caspian Hydrocarbon Resources-

Caspian Sea region first time came at the arena of international sphere in the late nineteenth century. In this period, a commercial oil industry was developed around Baku (Akiner, Shirin; 2004;04).<sup>1</sup> First oil boom was possible in Caspian region, when Russian government decided to open the area for investment in 1870s. As a result, Caspian region became the sphere of influence for private sector and government sector.

In Private Sector, first step was taken by Nobel brothers<sup>2</sup>- Robert and Ludwig in 1875. Robert acquired a few oil properties near Baku and purchased small refinery. Robert was soon joined by Ludwig. Both brothers proceeded to lay the foundations of modern oil industry in Caspian Sea region. They brought drilling specialist from Pennsylvania when, felt necessary. They also invented their own machinery. Their refineries were furnished with the most advanced equipment in that time. In field of organization and business, they were unique among their competitors. They focused on the best available scientific and academic resources to improve their performance. They succeeded in maintaining a reputation for the highest integrity. Both brothers also modernized export facilities for Baku oil industry. Until the 1870s crude oil and its products were mostly transported in goat or ram skin bags, loaded on the camel or horses, and carried by caravan to distant destination. Despite this, oil was also shipped in wooden barrels across the Caspian Sea from Baku to Astrakhan, where it was transferred into barges, and transported up to the Volga. Ludwig had brilliant ideas for shipping oil in bulk. In 1878, he launched tanker facility

for transportation of oil. In this region, it was highly successful. It was rewarded as a revolution in oil trade not only in the Caspian region but also in the world.<sup>3</sup>

Another private company was the Rothschild Banking Family. Its French branch financed to build "Baku-Batumi Railroad." This railroad was completed in 1883. This railroad provided an alternative route to the west for Caspian oil. These steps were milestones in the transportation system of the Caspian region. These steps led the foundation for other companies, to show their interest in the transport system in this region.

In 1892, another company- Samuel and company (later renamed the Shell Transport and Trading Company) joined the Caspian region with a spectacular new venture. This venture was about to provide tanker facilities for Caspian Oil. In the banner of this banner, the company was interested to build a tanker route from Batumi via the Suez Canal to Singapore, after that, to the Far East. During this period, another pipeline route from "Baku to Persian Gulf" was proposed by the Russian government. But, this project could not succeed. There were two causes behind this. First, Iran did not approve this project. Second, Britain argued- this project is a challenge of its own strategic interest and sphere of influence. Russia wants to decrease this under this project. Britain did not support this project.

Due to the oil industry the Caspian region became prosperous. Baku was the most beneficial of this industry. People became rich. But, wealth was concentrated in particular classes. There were famous "millionaire oil magnates."<sup>4</sup> Affluent persons were residing in luxurious palaces around Baku. This place in Baku was known as "white town." Poor people were residing in poverty, this area was known as "black town."

In 1890, for the first time, oil fields of the western Kazakhstan came in to light. But, it was not commercially utilized at that time. In 1911, another oil field was discovered in Kazakhstan. This oil field was the Dossor oil field (east of Atyrau). That time, it had 7 million tons reserves.



After the World War I, central and allied attracted towards Caspian region in the light of its valuable source of energy supply. In August 1918, a small British force took the city but soon withdrew. After this, it was occupied by Ottoman-German troops. In November 1918, Allied units returned to Baku and proclaimed as independent republic. In April 1920, they were defeated by the Bolsheviks. During this period, soviet had been establishing. Except only southern stretch of Iranian coastline, entire Caspian region came under the fag of the soviet regime. Foreign businesses were nationalized and the region was isolated from the world beyond the Soviet frontiers. When Soviet Union was formed, a national delimitation was carried out. As a result of this delimitation, four union republics were created around the Caspian sea- the Azerbaijan, Kazakh and Turkmen Soviet Federative Socialist Republics (SSR) and the Russian Soviet Federative Socialist Republic (RSFSR). RSFSR had border with the Caspian Sea including the territory of the Kalmyk and Dagestan Autonomous Soviet Socialist Republics.

During the Soviet regime, Caspian Sea region was developed in different stream. Azerbaijan was developed as the chief manufacture of the equipment for the entire Soviet oil industry, furnishing 70 percent of its requirements. Kazakhstan was developed as industrial sector. These sectors were included the extracting and processing of ferrous and non-ferrous metals, coal mining and heavy engineering. Much of the Kazakh output was destined for use in the Soviet military-industrial complex, a significant part of which was located in this republic, including the nuclear test site at Semipalatinsk and the space Center at Baikonur. Agriculture sector was also developed in Kazakhstan .Kazakhstan was one of the chief producer of meat and grain. Turkmenistan was developed as Cotton producing area. Turkmenistan became one of the cotton producing areas for soviet regime. Except this, gas field was discovered.<sup>5</sup> These gas fields were located in western branch of Caspian sea (those area were belonging to Turkmenistan).

During the Second World War, the region briefly regained international significance. In 1942, German forces mounted "Operation Edelweiss" in an attempt to seize control of the Caucasians oil field. However, they were stopped at Stalingrad by the Red Army. Post World War II, cold war was begun in international politics. Once again, there was little opportunity for foreigner to access this region. Caspian Sea region was regarded as a "Soviet Iranian preserve." Again, Caspian Sea region came into the light again at international areas, When Mikhail Gorbachev coined the term "Glasnost" and "Perestroika". He attempted to liberalize the soviet system and to reform the stagnant economy. At the end of 1980s, the United State oil company Chevron incepted to discussion with the Soviet authorities to explore possibilities for developing the giant Tengiz field.<sup>6</sup>

Chevron oil company got success in 1993 after disintegration of USSR. In 1993, Chevron Oil Company signed Tengiz Chevroil partnership to implement at US\$20 billion for 40 years with Kazakhstan. Kazakhstan government also contacted with other oil companies to explore Kazakh oil field. In 1992, British Gas (BG), Eni (Italy) and were awarded Karachaganak oil field to develop this field. In November 1997, BG and Eni, in partnership with Texaco (United States) and LUKoil (Russia) cocluded a Producing Sharing Agreement to explore Karachgauak oil field. In July 2000, OKIOC-Off Shore Kazakhstan International Operating Company discovered the massive Kashagan deposit, located in the northern part of the Caspian sea, about 70 kilometers south of Atyrau. This oil field is proving to be one of the largest oil field in the world. Azerbaijan came up with "contract of the century" on 20 September 1994. It was signed in Baku between Azerbaijan International Operating Company (AIOC), a consortium of oil companies led by British Petroleum (BP) and the Azerbaijan State Oil Company (SOCAR). Under this agreement, investors were— American Amoco (17%), Pennzoil(4.8%), Unocal(9.5%), Exxon(5%), Russian LUKoil company(10%), Norwegian Statoil(8.5%), Japanese Itochu(7.45%), British Romco (2%), Turkish TPAO(6.75%), Saudi Arabia's Delta(1.6%), and the Azerbaijani

state oil company SOCAR (10%). Russian Oil Company, LUKoil was included in this agreement latter. This agreement was about not only to provided technology to implement the Chirag project but also the necessary self- finance to build it along with five countries , such as United state, United Kingdom , Norway , Russia, Turkey, and Saudi Arbia. The aim of Producing Sharing Agreement was produced 80,000 barrels per day by early 2000(Nuri. Dr. Masqsudul Hasan; ; 44).<sup>7</sup> In June 1996, Azerbaijan signed a deal with BP, Statoil, LUKoil, Elf, Turkish State Petroleum Company, and Naftiran Intertrade Company (Iran) for Shah Deniz field. Shah Deniz field is located in the Caspian offshore, about 70 km. south from Baku (Akiner, Shirin; 2004; 09).<sup>8</sup> Argentine Company – Britdas negotiated to Turkmenistan to explore gas in 1993. After this, Turkmenistan signed agreement to explore for gas with other companies. Cheleken Production sharing Agreement was signed with Lamary Energy Group to develop two offshore field. In 1996, to develop three offshore deposits – Barinov, Livonov and Shafag, agreement was signed with Petronas (Malaysian State Energy Company). In 1998, Turkmenistan signed a strategic agreement with Mobil (United states Company). The partner of this agreement was Monument oil and Gas (United Kingdom based company). This strategic agreement was about for exploration and development in the Garashsyzlyk area. It is situated in western Turkmenistan onshore.

In brief , we can say – The czarist government heralded the opening of modern petroleum industry, when it drilled on oil well in wahr, the giant Bibi- Eibat field in 1871 (Nuri, Dr. Masqsudul Hasan; 2000-2001;37).<sup>9</sup> This was a break through in the history of Caspian oil reserve. Day by day, it was getting popularity. By the beginning of the 20<sup>th</sup> century the Caspian Sea region had burst on the world scene by producing nearly 50% of world's oil. It then remained of the “gold rush” of California as many people and business companies flocked to the region in guest for the “black gold.”

## **Hydrocarbon Potential of Caspian Sea-**

There is no consent among analysts – how much hydrocarbon resources are reserved in Caspian Sea? Every one has different opinion on this issue. To give a concrete comparative statement on the reserves of hydrocarbon resources in Caspian Sea is necessary to review the arguments of different analysts. These are following-

### **First Argument**

A public accounting of the total proven reserve of the Caspian region is provides in a report delivered to the State Department to the United States congress in 1997, the term “proven resources” is defined as the quantity of oil which can be produced profitably, given current prices and technology from a proven field, i.e. a field where the existence of oil has already been confirmed through the drilling of successful exploration. Numbers for the proven reserves for Caspian and Central Asian Republics are follows (Chenoy, Dr. Anuradha M; 2005; 27).<sup>10</sup>

### **The Caspian Region’s Proven Oil Research (billion of barrels)**

Azerbaijan	-	3.6
Kazakhstan	-	10.0
Turkmenistan	-	1.5
Uzbekistan	-	0.2
Caspian Total	-	15.3

More geologists classify between 20 billion and 30 billion barrel of Caspian oil reserve as proven. Reserve numbers and unexplored areas can prove these higher. At this point however, it has been established that this region of central Asia and the Caucasus contain about 2 to 3 % of the world proven oil resources. Other sources cite that 17.5 billion barrel of recoverable oil has already been established in the south Caspian. That a further 20 billion barrels should be found in Azerbaijan and

Turkmenistan in already well defined traps. This yet to find is equivalent to the North Sea reserves.<sup>11</sup>

### Second Argument

Proven Crude Oil Reserves (Caspian Sea Region and Russia)

Estimated As on 01 January (Expressed in billion Barrels)

**Table- 1**

Country	1998	1999	2000	2001	2002	2003	% of world
Azerbaijan	1.2	1.2	1.2	1.2	1.2	7.0	-
Kazakhstan	5.5	5.5	5.5	5.5	5.5	9.0	-
Turkmenistan	0.6	0.6	0.6	0.6	0.6	0.6	-
Russia	-	-	-	2.7	2.7	2.7	-
Total Caspian	7.3	7.3	7.3	10.0	10.0	19.3	1.6
Total world	1019.6	1034.3	1016.1	1028.5	1031.6	1212.9	

Sources- cited by Malakar, S.N.(edited; 2006: 268)<sup>12</sup>

### Third Argument

The resources of Caspian Sea have been estimated to hold 100 billion to 200 billion barrels of oil. Natural gas reserves are estimated at 7.9 trillion cubic feet meters (Zeb, Rizwan; 2003- 04; 39).<sup>13</sup>

**Estimates of Recoverable oil and Gas Resources in the Caspian Region<sup>14</sup>**

**Table- 2**

Country	Billions Barrels			Trillion Cubic Meters	
	Proven oil	Possible Oil	Total	Proven Gas	Possible Gas
Azerbaijan	3.6	27.0	31.0	0.3	1.0

Kazakhstan	10.0	85.0	95.0	1.5	2.5
Turkmenistan	1.5	32.0	33.5	4.4	4.5
Uzbekistan	0.2	1.0	1.2	2.1	1.0
Russia	0.2	5.0	5.0	NA	NA
Iran	NA	12.0	12.0	0	0.3
Total	15.6	163.0	178.0	8.3	9.3

Note- Totals may not add up due to rounding off.

Sources- United States Departments of state, Caspian Region energy development Report, undated report attached to letter from Barbara Larkin, Assistant Secretary for Legislative Affairs, to Senator Robert Byrd, April 15, 1997, Page No.-03.

#### Fourth Argument

The Caspian littoral states together hold one the world's largest oil and gas reserves, which make them very significant in global markets. The estimate of proven oil and gas reserves in the Caspian region vary. For example, according to United States Energy Information Administration- EIA the total proven oil reserves of the three new Caspian littoral states- Azerbaijan, Kazakhstan, and Turkmenistan are estimated at 7.2 billion bbl in 2002 and the total proven gas reserves at 170.4 tcf. The total proven oil reserve according to the Statistical Review of World Energy (BP, 2004) is 16.5 billion bbl and the total proven gas reserves are 217.9 tcf. Energy consultant Wood Mackenzie has estimated the five Caspian littoral countries (including only the Caspian off-shore sector of Russia and Iran) will have the potential to produce about 4 MMbbl/d by 2014. If the various oil projects boost production, then the Caspian region oil export might rise to 3 MMbbl/d in 2010 and additional 2 MMbbl/d to 5 MMbbl/d in 2020 (Animeh, Mehdi Parvizi and Houweling, Henk; 2005;86).<sup>15</sup>

#### Proven Oil and Natural Gas Reserves in the Caspian Sea Region, 2003<sup>16</sup>

Table- 3

Country	Proven oil reserves	Proven natural Gas Reserves
	Billion bbl	Trillion Cubic Feet (tcf)

Azerbaijan	7.0	48.4
Iran	130.7	942.2
Kazakhstan	9.0	67.1
Russia	69.1	1659.1
Turkmenistan	0.5	102.4
Total	216.3	2819.2

Sources- British Petroleum, BP Statistical Review of World Energy, 2004.

### Fifth Argument

According to Statistical Review of World Energy (BP, 2006), the proven oil reserves of the five Caspian littoral states (Azerbaijan, Iran, Kazakhstan, Russia and Turkmenistan) are estimated total 259 billion bbl. Total gas reserve are estimated at 2,888.6 tcf. In terms of percentage, five Caspian littoral states poses about 21.6 % of the world total proven oil reserve and 45.6% of the worlds total proven natural gas reserves (Animeh, mehdi Parvizi and Houweling, Henk ,2007; 354).<sup>17</sup>

### Proven Oil and Natural Gas Reserves in the Caspian Sea Region, 2005

Table- 4

Country	Proven oil reserves	Proven natural Gas Reserves
	Billion bbl	Trillion Cubic Feet (tcf)
Azerbaijan	7.0	48.4
Iran	137.5	943.9
Kazakhstan	39.6	105.9
Russia	74.4	1688.0
Turkmenistan	0.5	102.4
Total	2,59.0	2,888.6

Sources- British petroleum, 2006 BP Statistical Review of World Energy 2006.<sup>18</sup>

After comparative analysis of above arguments and data, it can say that reserves of Caspian Sea yet to be found. It needs investment of capital and technology to discover new oil and gas reserves in this region. Present time, Northern Caspian Sea has been utilized and southern part is yet to be utilized. Southern Caspian Sea is deeper than Northern Caspian Sea. It need modern technology and more finance. Production oil and gas in Caspian Sea is not stagnant. Day by day it is increasing. Discovery of oil and natural gas in this region is still going on. Companies have discovered new reserves of oil and gas. In January 2006, Russian LUKoil Company discovered major oil and natural field in Russian sector of the Caspian Sea This field holds probable and possible reserves of 600 million barrels of oil and 1.2 billions cubic feet of natural gas. The oil is lower in sulphar than most other Russian oil, particularly the Ural blend benchmark Russian crude and is thus more valuable. The Caspian Sea region is expected to produce and export more oil in the future. The United State Energy Department estimates that the Caspian contains 10 billion barrels of proven oil reserves (defined as oil and natural gas liquids deposits that are considered 90% probable). Overall, proven natural gas reserves in the Caspian region are estimated at around 170 billion cubic feet (TCF). Possible natural gas reserves in the Caspian region are even larger and could yield another 293 TCF of natural gas. Turkmenistan (10 TCF) and Kazakhstan (65 TFC) are among the top 20 countries in the world in terms of proven natural Gas reserves. Whatever discovery has been made till now, it can say that out of OPEC Caspian Sea region will play an important role in global oil and gas market. It would be an alternative of Persian Gulf in future. In this reference this argument would be correct that "By 2150, oil and gas reserves will be significantly reduced and the Caspian Sea might be the last oil great oil find before renewable energy becomes more of a reality (Dion, Richard R;1998; 80).<sup>19</sup>



## **The Role of Caspian Oil and Gas in Global Oil and Gas supply**

### **Global Oil Demand**

Over the next two decades, oil is expected to remain the main fuel for industries and households, accounting for about 40% of global energy consumption. Among industrialized countries, the largest increase in oil demand is expected in North America (United States, Canada, and Mexico). At an average annual growth rate of 1.2% petroleum product consumption in North America is projected to increase between 2003 and 2030 by 9.1 MMbbl/d. For Western Europe, oil is the largest energy source. However, its projected increase in demand is the lowest in the international energy outlook forecast (2006), during the same period, Western Europe oil consumption is expected to increase by about only 0.2% per year, or from 15.5 MMbbl/d to 16.3 MMbbl/d. The low increase in oil consumption in Western Europe is caused mainly by increasing gas consumption. Since the disintegration of the Soviet Union oil demand decrease steadily in Eastern Europe and the former Soviet Republics from 8.3 MMbbl/d to 3.7 MMbbl/d. Since 2000, however, economic prospects for the region are good and expected economic growth will lead to an increase in oil consumption projected to reach an annual average of 1.4% or around 7.1 MMbbl/d by 2025 (Animeh, Mehdi Parvizi and Houweling, Henk, 2007; 367).<sup>20</sup>

In industrialized Asia (Japan, South Korea, Taiwan, Australia and New Zealand) oil demand is projected to increase in the same period (2003 to 2030) by an average of 0.5% per year, from 8.8 MMbbl/d to more than 10.1 MMbbl/d. Japan imports all the oil it uses, accounting for about 80% of the total oil demand in industrialized Asia. The greatest increase in oil demand is expected in developing Asia. In 1985, China imported less than 8,000,000 tonnes of oil and oil products. In 2001, oil and oil products imports had increased to 5.0 MMbbl/d. China is the second largest oil consumer in the world behind the United States and its expected 2025 "aggregate" oil consumption may reach 46% of America's consumption level. China's oil consumption will increase by 3.8% annually, from 5.6 MMbbl/d in 2003 to 15 MMbbl/d in 2030. Between 1962 and the present, India's per capita income growth lagged behind growth in industrialized East

Asia and Industrializing China. In 2000, its population surpassed one billion. Indian oil consumption is expected to grow by an annual average of 2.4% to almost 4.5 MMbbl/d in 2030. India imports about two-thirds of its crude oil requirement. For the rest of developing Asia, oil demand will increase at a slower rate for the projected period than during the 1990s.<sup>21</sup>

In Central and South America oil demand for the projected period will increase from 5.3 MMbbl/d to 8.5 MMbbl/d. However the share of oil in the region's total energy demand is declining owing to substitution of hydroelectric, natural gas, coal, and energy form crops.

In the Middle East between 2003 and 2030 oil demand will grow by an annual average of 1.5%, from 5.3MMBBL/d to 7.8MMbbl/d. In Africa, oil currently compromise 44% of total energy needs, between 2003 and 2030, oil demand will increase from 2.7 MMbbl/d to 4.9MMbbl/d.

### Projected Global Oil and Natural Gas Consumption, 2003-2030<sup>22</sup>

Table- 5

Region/Country	Oil			Natural Gas		
	2003 MMbbl/d	2030 MMbbl/d	Annual average growth 2003- 2030 in Percent	2003	2030	Annual average growth 2003- 2030 in Percent
North America	24.3	33.4	1.2	27.4	36.6	1.1
United States	20.1	27.6	1.2	22.3	26.9	0.7
Western Europe	15.5	16.3	0.2	17.8	30.8	2.0
Industrialized Asia	8.8	10.1	0.5	5.0	6.8	1.2
Japan	5.6	5.4	0.1	3.1	3.8	0.8

Former Soviet Union and Eastern Europe	4.9	7.1	1.4	23.6	40.5	2.0
Developing Asia	13.5	29.8	3.0	7.5	28.8	5.1
China	5.6	15.0	3.8	1.2	7.0	6.8
India	2.3	4.5	2.4	1.0	4.5	5.9
South Korea	2.2	3.5	1.7	0.9	1.3	1.7
Central and South America	5.3	8.5	1.8	3.8	10.8	3.9
Middle East	5.3	7.8	1.5	7.9	19.6	3.4
Africa	2.7	4.9	2.3	2.6	8.1	4.4
<b>World Total</b>	<b>80.1</b>	<b>118.0</b>	<b>1.4</b>	<b>95.5</b>	<b>182.0</b>	<b>2.4</b>

**Source-** Based on EIA, 2005 International Energy Outlook 2006, table A4 and A5, page no-87-88.

### **Global Gas Demand**

Between 2003 and 2030, it has been estimated that global demand for natural gas will almost double, from 95.5 tcf to 182 tcf; which translates into an annual increase in consumption of 2.4%. In developed countries, gas demand will increase by an annual average of 1.5%. In North America, it is projected to increase by 1.1% per year and in Western Europe by 2%. Western Europe, which holds less than 5% of total world's natural gas reserve, was responsible for 17% of the world's total gas consumption in 1999. Between 2003 and 2030, industrialized Asia could increase its demand for natural gas at an annual average of 1.2%, which is a much slower rate than that of the period between 1970 and 1999, when gas demand in Industrialized Asia increased annually by 11.2%. In the former Soviet Union and Eastern Europe, gas consumption will average a 2% annual increase over the forecasted period, rising from 23.6 tcf to 40.5 tcf. Developing Asia will account for an annual average increase of 5.1% between 2003 and 2030, with China alone accounting for a 6.8% annual average increase. In Central and South America, the average annual growth rate in gas demand will be as high as 3.9%,

raising it from 3.8 to 10.8 tcf. The Middle Eastern countries also seek to develop their domestic gas market, where consumption is expected to more than double in the projected period, from 7.9 tcf to 19.6 tcf. Africa accounts for about 5% of the world's natural gas production, but only consumes 2% of the world's demand. It is projected that African gas consumption will increase by an annual average of 4.4% from 2.6 tcf to 8.1 tcf between 2003 and 2030.<sup>23</sup>

Oil will have top rank in global primary energy demand. Among coal, oil, gas, nuclear, hydro, etc, oil and gas together will have 65.3% share in global energy demand (Azhar, Dr. Mohd;2006;65).<sup>24</sup>

#### IEA Outlook for Global Primary Energy Demand<sup>25</sup> (mnt.o.e.)

**Table- 6**

	1971	%	2000	%	2010	%	2030	%
Coal	1449	29.0	2335	25.4	2704	24.3	3606	23.6
Oil	2450	49.0	3604	39.3	4272	38.4	5769	37.8
Gas	895	18.0	2085	22.7	2792	25.1	4203	27.5
Nuclear	29	0.6	674	7.3	753	6.8	703	4.6
Hydro	104	2.0	228	2.5	274	2.5	366	2.4
Other Renewable	73	1.5	233	2.5	336	3.0	618	4.0
Total	4,999	100	9,179	100	11,132	100	15,267	100

The total global oil stock at the end of 2005 was estimated at 1.2 trillion bbl. Of which 902.4 billion bbl was in OPEC, and 298.3 billion bbl was on non-OPEC countries. Fourteen countries account for 90% of the total global proven oil reserves: Saudi Arabia, Iraq, Iran, United Arab Emirates, Kuwait, Venezuela, Russia, Mexico, United States, Libya, China, Nigeria, Norway and the United Kingdom. Just 5 countries – Saudi Arabia, Iraq, UAE, Kuwait and Iran, hold almost two-thirds of proven global oil reserves. Global Natural gas reserves at the end of 2003 were estimated to be 6,348.1 tcf. Almost 85% of global natural gas reserves are located in the Middle East and the former Soviet Union. The proven gas reserve for Azerbaijan, Iran, Kazakhstan, Russia and Turkmenistan are estimated at 2,888.6 tcf, which is almost as much as the combined proven gas reserves of Europe, United States, and the Middle East. Iran and Russia alone account for about 41.5% of global natural gas resources.<sup>26</sup>

#### **The Role of Caspian Oil and Gas in Global Market-**

Iran and Russia are the two main powers in terms of oil and gas reserves of the Caspian region and have the greatest energy reserves in the world. Iran is the world's second largest owner of proven natural gas reserves (estimated at 943.9 tcf), while producing 87 billion cubic metres (BBm) per year after Russia and ranks second in proven oil reserves (11.5%, estimated at more than 137.5 billion bbl). The oil production of Russia was estimated at 9.55 MMbbl/d in 2005. Russia has second rank in oil production behind Saudi Arabia. In 2005, It's gas production was 598 BBcm. Russia is currently the world's largest gas producers (Animeh, Mehdi Parvizi and Houweling, Henk; 2007; 371).<sup>27</sup>

Azerbaijan has been an important oil sources for more than century. Its proven oil reserves are estimated at 7 billion bbl and proven gas reserves at 48.4 tcf. After independence in 1991, Azerbaijan's oil production declined from 238,000 bbl/d to 180,000 bbl/d in 1997. Owing to substantial foreign investment in oil sector, this trend has been reserved. It is expected that oil exports could exceed 1 MMbbl/d by 2010 and 2 MMbbl/d in 20 years from now.<sup>28</sup>

Kazakhstan has far greater oil and gas reserves than were estimated during the soviet period. It is considered, after Russia to be the richest of the former soviet republics in oil resources, with proven oil reserves of 39.6 billion bbl. It also has an enormous natural gas reserves, estimated at 105.9 tcf. Kazakhstan oil production dropped to 415,000 bbl/d during the first few years after the disintegration of Soviet Union. Due to, foreign investment in its oil sector helped boost its production to 1.364 MM bbl/d in 2005. Production is expected to reach 2.4 MMbbl/d by 2010, and as much as 2.5 MM bbl/d by 2015. Kazakhstan exported 631,000 bbl/d of oil in 2001, but the country's remoteness from world market and its lack of export pipeline have hindered faster growth of export. In 2001, most Kazakh oil export were shipped mainly through Russia via the Atyrau – Samara pipe line, with additional supplies shipped by rail and by barge across the Caspian sea. Kazakhstan's gas industry is significantly underdeveloped and hampered by a lack of infrastructure. In august, 1999, the Kazakh government passed a law requiring TNOCs to include natural gas utilization projects in their development plans. As a result, Kazakhstan increased its natural gas production to 23.5 BBcm of natural gas in 2005, the highest level of past decade. If domestic natural gas demand remains stable, production is expected to reach 1,700 bcf in 2010.<sup>29</sup>

Turkmenistan has one of the world's major natural gas reserves and also significant oil reserves. According to recent studies, gas reserves might amount to as much as 102.4 tcf and oil reserves to 0.5 billion bbl. After independence, oil production decreased to 84,000 bbl/d in 1995 and then more than doubled to 192,000 bbl/d in 2005. Meanwhile, production of natural gas fell sharply in the first decade after independence. In 2005, the country produced 58.8 BBcm. The recent trend is positive, mainly owing to a major gas export deal with Russia and the resumption of delivering supplies to Ukraine. Turkmenistan is expected to produce up to 4,200 bcf in 2010.<sup>30</sup>

## Caspian Sea Region oil production and Exports<sup>31</sup>

**Table- 7**

Country	Production			Net Exports		
	Production, 1995 (TTbbl/d)+	Production, 2005 (TTbbl/d)+	Possible Production, 2010 (TTbbl/d)# [high]	Net Export, 1990 (TTbbl/d) †	Net Export, 2001 (TTbbl/d) †	Possible Net Export, 2010 (TTbbl/d) †
Azerbaijan	185	452	1,140	77	175.2	1,00
Kazakhstan	434	1364	2,400	109	631	1,700
Turkmenistan	85	192	964	69	107	150
Iran	3.2~	4.09*	3.4~~	n/a	2.55*	n/a
Russia	11.4~	9.27*	9.6~~	n/a	6.67*	n/a
<b>Total</b>	<b>10735</b>	<b>15608</b>	<b>4654</b>	<b>255</b>	<b>920.2</b>	<b>2850</b>

**Notes:**

- + Based on BP, 2006 BP Statistical review of World Energy 2006.
- # Based on EIA, 2003 Caspian Sea Region: key Oil and Gas Statistics.
- † Based on EIA, 2002 Caspian Sea Region: Reserves and Pipelines.
- \* Based on EIA, 2006 International petroleum (Oil) Imports and Exports, data on Iran and Russia measured in million of barrels per day for the year 2004.
- ~ Based on EIA, 2006 International Energy Outlook 2006, data on Iran and Russia measured in million of barrels per day for the year 1990.
- ~~ Based on EIA, 2006 International Energy Outlook 2006, data on Iran and Russia measured in million of barrels per day for the year 2010 in the reference case.

Sources: Bp, 2006 Statistical Review of World Energy; EIA, 2003 Caspian Sea Region: Key Oil and Gas Statistics; EIA, 2002 Caspian Sea Region: Reserves and Pipelines.

### Caspian Sea Region Natural Gas Exports<sup>32</sup>

Table- 8

Country	Production			Net Exports		
	Production, 1995 (BBem) Per year+	Production, 2005 (BBem) Per year +	Possible Production, 2010 (bef)#	Net Export, 1990 (bef) †	Net Export, 2001 (bef) †	Possible Net Export, 2010 (bef) †
Azerbaijan	6.2	5.3	600	-272	00.0	500
Kazakhstan	5.5	23.5	1,700	-257	-176	350
Turkmenistan	30.1	58.8	4,200	2,539	1,381	3,300
Iran	1.25*	2.96*	n/a	0.11~	0~	n/a**
Russia	21.0*	22.4*	26.8**	6.87~	7.65~	n/a**
<b>Total</b>	<b>632.5</b>	<b>772.6</b>	<b>6100</b>	<b>2010</b>	<b>1205</b>	<b>4150</b>

**Notes:**

- + Based on BP, 2006 BP Statistical review of World Energy 2006.
- † Based on EIA, 2002 Caspian Sea Region: Reserves and Pipelines.
- # Based on EIA, 2003 Caspian Sea Region: key Oil and Gas Statistics
- \* Based on EIA, 2006 International Natural Gas Production, data on Iran and Russia measured in trillion of cubic feet year 1995 and 2004 (second column).
- \*\* Based on EIA, 2006 International Energy Outlook 2006, data measured in trillions of cubic feet.



~ Based on EIA, 2006 International Natural Gas and Liquefied Natural Gas (LNG) imports and Exports, data measured in trillion of cubic feet for Iran in 1991, for Russia 1992, and both in 2000.

**Sources:** BP- British Petroleum, Statistical Review of World Energy 2006; EIA, 2002 Caspian Sea Region: Reserves and Pipelines; EIA, 2003 Caspian Sea Region: Key Oil and Gas Statistics;

Caspian Sea has potential to fulfill the need of global oil and gas in sufficient manner. Due to, lack of infrastructure, modern technology and instability in this region, is not able to utilize its potential. If the obstacles in the of Caspian sea were removed and participated with its full potential in world market, will decrease the influence of Persian Gulf. Without, Caspian exports oil exports from the Persian Gulf to Europe will have increased to 0.5 MMbbl/d by 2010. If the Caspian region fully participated in market exports, oil from the Persian Gulf to Europe will have decreased to 1.5 MMbbl/d by 2010.<sup>33</sup>

#### **Role of Pipe Lines in the Caspian Sea-**

The physiography constraints of Caspian Sea region have complicated the transportation of resources from the region. The region has no single means of exporting anything without crossing another countries territory and has no direct access to navigable international waterways. So the littoral states are heavily dependent upon other countries for trade and transportation routes for their natural resources. In whatever direction, pipeline will be built. It will cross the territory of other stats to reach market. It will also carry transit fees. This region has lack of infrastructure. It has also long distance from market. In the reference of all these problems, when it reaches to world market, between \$ 3 and \$4 per barrel extra expand. In addition, exploration and production costs of oil and gas in the Caspian Sea basin is not economically. Oil analysts estimate, the Caspian Sea basin's oil production cost will be around US \$5 per barrel. Comparatively, it is

high. The oil production cost of Saudi Arabia is US \$1 per barrel. But, it is lower than production cost of North Sea (US \$13 per barrel) and Siberia (US \$6 per barrel (Shah, Alam; 2002; 08)).<sup>34</sup>

Natural Gas exports in form of LNG- Liquefied Natural Gas. LNG demands a more elaborate infrastructure, liquefaction plant, port facilities and dedicated shipping. Natural gas make solid at high temperature after that cooled at – 162 degree centigrade and regassified on arrival and before use. In this process, about 30% pf natural gas is lost. This lost is apart from lost at the time of extraction. Pipeline is the cheapest means of transportation for natural gas. It needs only market and producing area, and pumping stations. There is no loss of gas, when it transport by pipeline. It is essential for Caspian region to make resolution for transportation. It is not matter- how much have you reserves. Crucial question is- how it is explored and sells in market. For economic reasons alone, transit Countries are in a position to impose tariffs that alter the costs and risks of developing the primary resources. Transit countries, moreover may use transit rights for political rather than economic gain.

Resolving the Caspian transportation regime therefore is a key element to exploiting Caspian reserves. The Caspian states (With the notable exception of Russia) are signatories of Energy charter Treaty-ECT, which impose a particular legal regime on its members. In December 1991, fifty-one states (the Central and East European countries, the European Union and its members, the States of the former Soviet Union, the United State and other non-European members of the organization for Economic Co-operation and Development –OECD, such as Japan, Canada and Australia) agreed on the European Energy Charter. This treaty has multiple objectives include the promotion of energy cooperation between countries formerly divided by the Iron Curtain, assisting transition to a market economy, maximizing the efficiency of production , conversion, transportation, distribution and use of energy, minimizing environmental problems, and ensuring the security of energy supplies (Gregory, Paul R;2000;38).<sup>35</sup>

Geo-politics of pipelines from Central Asia and the Caucasus to market in Europe, Asia and elsewhere has become a major foreign-policy issue for the United States in the last few years. Countries like Iran, Turkey and Russia are competing to gain a piece of the great pie. Washington favours Turkey to gain success in geopolitics of pipeline. The winner of pipeline game will reap strategic benefits while losers will become marginalized for some time to come (Amirahmadi, Hoosheng; 2000;162).<sup>36</sup> The winners of the pipeline game will gain strategic benefits while losers will be marginalized strategically. "The victory in the struggle will receive not only billions of dollars in the form of transit fees. The real gain will be control over the pipeline which will be the most important factor of geopolitical influence in the Trans-Caucasus and in central Asia" (Shah, Alam;2002;12).<sup>37</sup> Example of transit fee such as, Georgia, is expected to earn approximately \$508 million in transit fees over the next 20 years of operation of BTC (Baku-Tbilisi-Ceyhan) pipeline (Shaffer,Branda;2005;343).<sup>38</sup>

In Caspian region, mostly pipelines were constructed during soviet regime. Whatever pipeline investments and construction was proposed and constructed. It was focused on Siberia. The whole pipeline network of USSR was designed to channel Siberian oil westward to the big refineries and industrial centers of Western Russia and onward toward hard currency markets in Europe (Sanei,Faraz;2001;733).<sup>39</sup> Due to lack of transportation facility, Azerbaijan, Turkmenistan and Kazakhstan are not able increase their production. On 12 November, 1997, Azerbaijan International oil Consortium (AIOC) produced its first offshore oil. It was transported from the Caspian to the Black sea via a pipeline that passes from Chechnya to the Russian city of Novorossiysk. While production is relatively low at around 5 million barrels a year, When a main pipeline is constructed this will go up to around 100 million barrels a day. The expected discovery of kashagan oil

field (Kazakhstan) with potential of 6.8 billions tones, will be the biggest oil find in the world. This hoped – for oil can only start flowing by 2008. Reportedly, the Kazakh Caspian shelf has reserves of about 95 million barrels (13 billion tones) of oil and five trillion cubic meters of gas. The problem is that the construction of pipeline can only become feasible if and when the demand for oil is sufficiently assured from client states. Turkmenistan has rich reserves of gas. Unfortunately, the peculiarities of the old Soviet Communication system have considerably complicated the utilization of country's natural resources. In 1990, it produced 88 billion cubic meters of gas, while seven years later, it produced only 17 billion. The primary reason was the insolvency faced by the ex-Soviet republic of Ukraine, Georgia and Armenia, while another cause was the monopoly of the Russian gas pipeline. Moreover, the Russian occasionally turned off the pipeline and put pressure through their major oil company, Gazprom. While Russians sell their gas to Ukraine and Turkey at much higher price, they wanted to get Turkmen gas cheaper from the Uzbekistan border (Nuri, Dr. Maqsudual Hasan; 2000; 53).<sup>40</sup>

Day by day, potential of Azerbaijan, Turkmenistan and Kazakhstan has been increasing. But future potential of these countries depends on how they are produced and sold in the market. For example, Azerbaijan has export potential of nearly 75,000 barrels per day (bpd) and with many production sharing Agreements (PSAs) signed and foreign investment, this figure could go up to about 1.5 million to 2 million barrels per day. Turkmenistan has a narrower resources base but its current capacity of 100-150 thousand barrels per day , could rise up to 3,00,000 barrel per day or even reach 5,00,000 barrels per day by 2010. At the same time, Kazakhstan with present levels of a million barrels per day could have to potential to achieve 2-5 million barrels per day by day 2010.<sup>41</sup> Kazakhstan, Azerbaijan and Turkmenistan want improve to their potential. In the reference of their future potential, need elaborate and multiple transport facilities. So, they are looking towards west, and also an alternative of

Russian pipeline. In future, they can be able to negotiate with Russia to keep themselves in parallel position.

Caspian region is attracting interest of a number of countries to provide transportation facilities. The geostrategic value of the Caspian Basin made the development of the region's oil and gas an object of special interest to a number of states. The United States, Russia and Iran all vied to have Caspian oil and gas exported through their territories or, in the case of the United States, through states fully affiliated with the Euro-Atlantic alliance (Turkey and Georgia). The modest volumes of oil and gas in the basin stood in contrast to the colossal political efforts that the competing sides mounted to promote and thwart various pipeline options, indicating that the pipeline route was regarded as a means of building influence and cementing a new geopolitical order in the Caspian region. Indeed, the goal of winning the pipeline battle was less to gain the moderate volumes of oil and gas in the Caspian than to maintain (in the case of Russia) or attain (in the case of the United States and Iran) significant presence in the region. At the crossroads of two continents, the Caspian region is a worthy geostrategic prize. Today, some of the states of the region host simultaneously both United States and Russian military forces, underscoring the Caspian geostrategic value (Shaffer, Brendr; 2005; 343).<sup>42</sup>

Currently, **five pipeline routes** are available, proposed or contemplated for Caspian Sea region. These pipelines are following- Northern route, Southern route, Western routes, Eastern routes, and South Eastern routes.

### **Northern Routes**

This route is advocated by the Russia. Both Kazakhstan and Azerbaijan could join existing Russian pipelines by building extension or new pipeline that would take their oil to Novorossiysk on the Black sea. Russia is trying to convince both Azerbaijan and Kazakhstan that their interests will be protected, if their oil and gas pass through the northern route. Azerbaijan and

Kazakhstan do not want Russian hegemony in this region. If newly independent of Caspian state support Northern route blindly, will depend upon Russia. Russia will get super status in transportation strategy. Russia can unilaterally increase transit fees and constrain or threaten this action to gain economic or political concessions from them. Azerbaijan and Kazakhstan do not want such type of situation.

Another problem in this pipeline is Chechnya and Dagestan. This pipeline route (Baku-Dagestan-Chechnya-Novorossiysk) runs about 150km through Chechnya and Dagestan territory. The Situation of Chechnya and Dagestan put a question mark on the security of Northern pipeline. However in the efforts of the last 10 years, only a Russian backed pipeline had been completed in September 2001, which is carrying oil from Kazakhstan and Turkmenistan to the Russian port of Novorossiysk on the Black sea. To Bypass, Chechnya, to the east, Russia proposed an alternative pipeline, Astray-Novorossiysk pipeline at Komsomolskaya. In this project, the Russian pipeline also requires the laying of a 1,500 km pipeline from the Kazakh Tengiz fields through Tikhoretsk to the Russian Black sea port of Novorossiysk. This pipeline would join the existing 1,400km Baku – Tikhoretsk (Dagestan region) pipeline, which would carry the Azeri oil from the Caspian Sea.

The current method of transportation from Novorossiysk to the world markets is by tankers, through the Bosphorus strait. Turkey is objecting to this route. Turkey argued that oil storage facilities at Novorossiysk were not enough to handle enormous amount of Azeri, Kazakh and Russian oil. It was also suggested that the existing pipeline network should be upgraded or replaced to cope with the expected increase in output. In addition this, main card that turkey has been using to counter all other possible alternative routes to the above is that the Bosphorus strait might become overloaded with shipping. To get an alternative of Bosphorus strait, in 1994, Russia proposed to lay a Trans Balkan pipeline, from Bulgaria's port of Burgas to the Greek Aegean sea port of Alexandroupolis. This project is however, held up due to

financial disputes among Russia, Greece and Bulgaria. Another alternative pipeline is proposed for transportation of Caspian oil via Croatia. Transfetr-Russian Oil Pipeline Operator has been holding talks with the Croatian oil company-INA. Issue of negotiation is about upgrading of Croatian pipeline to transport crude oil from Russia to central Europe via Ukraine. The eruption pipeline has potential to enable Russia to use its existing export network and transport oil to the Adriatic Sea (Nuri, Dr.Maqsudul Hasan, 2000- 2001: 40).<sup>43</sup>

In Northern route, Chechnya is a crucial issue. To solve this issue, in June 1997, an agreement was signed between Russia and Chechnya. This agreement previously perceived risk of transit through Groznyy is no longer an impediment to exports. In September, 1997, Russia and Chechnya authorities signed an agreement launching the repairs process, in anticipation of Transneft and AIOC-(Azerbaijan International Operating Company) schedule exports of crude from Baku in October 1997(Kovalev.Felis N;2000;1587).<sup>44</sup> To improve transportation system of northern route, Caspian pipeline consortium-CPC was proposed in1999 and completed in 2001. CPC pipeline preserve and modernize the northern transportation route- Baku-Novorossiysk(Auty,Richard N and Soysa; 2006; 238).<sup>45</sup> The Russian government acquired 24 percent stake in the CPC project and Russian companies LUKArco, and Rosneft-Shell Caspian ltd. have another 12.5 percent and 7.5 percent respectively. CPC has a current capacity of 28 million tonnes of oil of a year, with future potential to increase capacity to 67 million tonnes a year. It is expected bring over US \$300 million annual revenue to the Russian state budget by 2008 (Antonenko,Oksana :2004;255).<sup>46</sup> The CPC project brought Russia important political dividends. On one hand, it secured the transportation of large proven Caspian oil reserves via its territory. On the other hand, it gave western Companies stake in what has become the largest United States investment in Russia. It signaled Russia's readiness to develop Caspian resources in cooperation with the United States. Russia also improved its

relation with Azerbaijan. In January 2002, during the visit of President Heidar Aliiev to Moscow, an extension of a transportation agreement for Azerbaijan oil via the Baku-Novorossiysk transport corridor was signed. This deal, which covers 5 million tons of oil a year, was feasible because the Russian authorities had succeeded in maintaining the northern route in operation.

Russia is also in the favour of "Blue Stream" project. Blue Stream project is about transportation of natural gas. The pipeline for Blue Stream will originate from Russia and is to be built an underwater gas pipeline across the Black sea to deliver 16 bn cm/y of Russian gas to Turkey. The Blue stream gas pipeline projected is to be completed jointly by the Russian company, Gazprom and the Italian Energy company Eni (Shah, Alam; 2002; 14).<sup>47</sup>

During former Russian President Yeltsin regime, the choice of transportation routes for Caspian oil was regarded as part of a new "Great Game", reflecting the strategic rivalry between Russia and the United States. From the Russian perspective this was not so much an issue of economic benefits, as an issue of reasserting its control over ex-Soviet State in the Caspian region. When Putin came into power, he recognized that a zero-sum competition with the west in the Caspian is not fruitful. As he said during the April 2002 in the meeting of Security Council- "We must not turn the Caspian into yet another area of Confrontation. No way, this is a matter of competition and we must be competitive" (Antonenko, Oksana; 2004; 252).<sup>48</sup> In December 2001, Viktor Kalyuzhny the Special Presidential envoy for Caspian affairs insisted that "Russia is not aiming at a transport monopoly in the Caspian region, and has noting against the idea of there being a varieties of pipelines. It understands that in the course of time demand for new pipeline infrastructure will rise in dammed with increase in oil -yield."<sup>49</sup> In October 2000, Russia presented its vision about Caspian Sea region at the first meeting of the interdepartmental Commission on the problems of the



CIS within Russia's Security Council –“Caspian region as the second priority for Russia's policies in the CIS after Russia's union with Belarus.”<sup>50</sup> In this meeting, it is also emphasized that “the scale of Russia's” interest in the Caspian region determines the necessity of its (Russia) comprehensive presence in the region and the need to pursue a vigorous policy there. Russia did not aspire to a dominant role in the region, nor did it seek any conformation. On the contrary, it supported constructive interaction with foreign partners and was ready for honest, civilized competition. In the reference of pipeline politics in Caspian region, Putin administration has made three strategic-<sup>51</sup>

(a) promoting the interests of Russian Companies in all major Caspian project.

(b) giving the “green light “to foreign investment in Caspian project under taken on Russian territory (e.g. CPC).

(c) using high-level political contacts to reassure Azerbaijan and Kazakhstan that Russia would not use transportation routes through its territory as use transportation route through its territory as a means of exerting political pressure on these countries and undermining their economic interests.

### **Western routes**

This route is preferred by the United States, Turkey, Azerbaijan and Georgia. This route is intended to bypass the Russian territories and Iran. The less expensive (\$1.5 billion) pipeline was proposed to the Georgian port of Suspa on the Black sea. It was originate from Baku. From Suspa port, oil is taken by tankers through the Bosphorus strait to Europe. There is problem about Baku-Suspa pipeline. Abkhazia, South Ossetia and Nagorno-Karabakh are obstructer in this project. Another problem is raised by Turkey. The concern of Turkey is about environmental factor. Turkey argued- “the Bosphorus strait is too congested and further increase in tanker traffic will in danger Istanbul's safety.” In the light to all these problems,

Baku-Tbilisi-Ceyhan (BTC) pipeline was proposed by the United States . This pipeline has been completed in 2005. Parallel to BTC oil pipeline, a natural gas pipeline from Baku through Tbilisi, to Erzerum in Turkey has become operational in 2006. United States regarded this pipeline, as East - West Corridor.

United States sought to promote the development of oil supplies from non-OPEC countries, there by reducing the cartel's ability to control world oil price. On this issue, in 1998, US Energy Secretary Bill Richardson remarked that- "this is about America's energy security, which depends on diversifying our sources of oil and gas world wide. We're trying to move these newly independent countries toward the west. We would like to see them reliant on western commercial and political interests rather than going another way." The establishment of the BTC pipeline and its transport corridor allows the newly independent states of the greater Caspian region to decrease their dependence on Moscow and make cooperation with the United States their new security orientation. The United States has used these new relationships to enhance transportation capabilities for its two major arenas military operation – Afghanistan and Iran. Partners of BTC- Azerbaijan hoped that BTC project would enhance international efforts to resolve the Nagorno-Karabakh conflict with Armenia. Georgia hoped its participation in the project would encourage the international community to bring pressure on Moscow and its clients separatists in Georgia to concede disputed territories back to Tbilisi(Shaffer, Branda;2005;344- 346).<sup>52</sup>

### **Southern route**

This route is preferred by Iran and oil companies. Southern routes economic and commercial cheap. These pipelines are cheaper to build (under \$ 1 billion). It will pass relatively safer territories, and pose no serious environmental hazard. Extensive oil pipelines are already exit in the south of Iran. These pipelines have port facility in the Persian Gulf. Pipelines those will originate from Caspian Sea region, will connect to these

pipelines. As a result of this connectivity, European and Asian markets can easily access. Big hurdle in this project is the United States. Iran's geostrategic position straddling the oil-rich Persian Gulf and the Caspian Sea and its advanced infrastructural and transport capacities represented a comparative advantage over Turkish and Russian export Routes. Political scholars, policy architects and international oil company have argued that the southern route represents the most cost-efficient means of exporting Caspian oil and gas to world markets. The Persian Gulf route represents the added benefit of geographic proximity to south and East Asia markets where analysts predict demand for oil and gas will outstrip western demand in years to come. (Sanei, Faraz; 2001; 748).<sup>53</sup> Azerbaijan also opposed this route. Azerbaijan remains wary of Iran's intention, a fear largely instigated by its allies-United States, Israel and Turkey. The northern part of Iran has total oil refining capacity of some 650,000 bls/d, which could be adapted with relatively low cost for oil swap arrangements with Azerbaijan, Kazakhstan and Turkmenistan. Iran has a number of crude and product pipeline within 50 to 150 km. of its ports on the Caspian Sea, with a combined capacity of one million barrels per day; that capacity could be used for transportation of oil to its refineries. Iran has extensive export facilities in the Persian Gulf, capable of exporting over 2.5 million barrels per day above its present export levels.

The Swap arrangement for the export of crude oil from the Caspian basin entails the exporting of crude produced in the Caspian region to the nearby Iranian refineries in exchange for Iranian crude of equivalent value delivered at Iran's export terminals in the Persian Gulf. The Caspian oil from Azerbaijan, Kazakhstan and Turkmenistan would be shipped/piped to points/refineries in Iran and/or piped into Iran's crude/product pipeline network. Presently, the two Iranian ports of Anzali and Neka are best situated to receive swapped oil by sea. Most of the crude oil to be produced in the Caspian region is either offshore or very near to the Caspian coast. Shipments to Iranian ports can be made in 3,000 to 5,000 tankers. This

would require 3 to 4 shipments per day for the estimated 80,000 bls/d of early oil produced in Azerbaijan by 1998. Anzali is less than 150 km. from the two crude oil pipelines that deliver over 100,000 bls/d of oil to the Tabriz refinery. Neka is situated at the South- Eastern part of the Caspian Sea. The facilities at Neka were being upgraded to handle up to 50,000bls/d in 1997 and nearly up to 100,000bls/d by the year 2000. Presently the oil swap agreement between Iran and Kazakhstan moves through Neka, with the necessary improvements to and expansion of pipelines, port facilities, and other infrastructure at Anzali and Neka, the refineries at Tabriz and Tehran could run for the most part on crude from the Caspian Basin, resulting in a total volume of swapped oil in excess of 300,000 bls/d by the end of 1998. This would be the most logical and economic approach for the export of early oil produced from the Caspian basin. The costs associated with the expansion of the lines from Anzali, Neka and Tehran could be reduced, if plans for these lines are incorporated in the construction plans for the earlier lines. The cost of an additional pipeline from Neka to Tehran, running some 300 km. is estimated at less than \$ 60 million. The cost of an additional lines from the junction of the Anzali pipelines with the Tehran-Tabriz line first to Zanjan and then to Tehran would be another \$60 million. The cost of expanding and/or improving port and infrastructure relating to the line from Anzali to the Tehran-Tabriz line would be about \$70 million. The total cost of moving 650,000 bls/d of crude oil from the Caspian basin to the open seas through Iran will be around \$340 million, which is far less than the projected cost of moving just 210,000 bls/d of Azerbaijan's oil from Baku to the Black sea by way of Russia and Georgia ( Ghorban, Narsi; 2000; 149).<sup>54</sup>

#### **Eastern route**

This route is advocated by china. China shares borders with Kazakhstan, Kyrgyzstan and Tajikistan. The Tengiz and Aktyabinsk oil fields located in Western Kazakhstan are the main and potential suppliers to this proposed pipeline. This project will meet not only the growing energy

demand of China but also that of Japan, South Korea and other countries too, through the Chinese harbors located on the Chinese sea. China has also proposed another 6,700 km. long pipeline from Turkmenistan to China would pass through Uzbekistan, Kazakhstan and across China to the markets in the Far East. The main proponents of the Turkmenistan-China pipeline are Exxon, Mitsubishi and China National Petroleum Company.

China signed a contract with Kazakhstan in September, 1997 to build a 2000 mile long and extremely expensive pipeline (\$3.5-5.0 billion) from two fields in Kazakhstan that China has proposed to purchase, to its western territories. The deal, commercially unattractive, can only go if China is to continue viewing Kazakhstan's option as a new strategic necessity (Amirahmadi, Hooshang: 2000 166-167).<sup>55</sup> Day by day, the energy demand of China is rapidly growing. For Caspian region, China is good market. China seeks diversified and reliable energy supplies to fuel its rapidly growing economy, which expanded at 10.3 percent annually 1999-2000, giving a doubling rate of just under seven years. Rapid economic growth continued into the twenty-first century. In 2003, there was 9% increase in the GDP of China. In 1971 China's share in the world's primary energy demand was a mere 5 percent. By 2020, the International Energy Agency estimates that China's share of global primary energy demand will be 16 percent. (Ziegler, Charles E.; 2006; 231).<sup>56</sup>

#### **South eastern route**

This route is favored by Pakistan and Afghanistan and UNOCAL (an American oil company) with Saudi Arabia Delta oil. All are promoting a pipeline to transport oil and gas from Turkmenistan and possibly Kazakhstan, through Afghanistan to Pakistan and eventually India. In this project major problem is Taliban, and terrorist camp inside Afghanistan. Due to this UNOCAL withdrew its support from this project. A stable Afghanistan would revive the interests of foreign countries and companies to invest in a 1,400 km. long pipeline route passing through Afghanistan that

would carry Caspian oil and gas to Pakistan's Coast on the Arabian Sea and to India. According to United State Energy Department report- "Afghanistan's significance from an energy standpoint stems from its geographical positions as a potential transit route for oil and natural gas exports from central Asia to the Arabian Sea." If Afghanistan would provide a better oil and gas transit route, a northern route passing through Russia would become less attractive and consequently, Russia would lose its dominance over oil and gas exportation from the Caspian region.(Shah,Alam:2002;16).<sup>57</sup>

#### **Other Means of Transportation-**

Caspian states are looking towards rail link for transportation of hydrocarbon resources. In November, 2007, the President of Turkey, Azerbaijan and Georgia inaugurated the construction of the Baku-Tbilisi-Kars (BTK) railway in Marabda, South Georgia, linking Baku in Azerbaijan with Kars in eastern Turkey via Tbilisi in Georgia. This project is scheduled to be completed in 2009-2010, and will transport goods, especially oil and pass engers. This project includes construction of a 29 km. segment in Georgia and a 76 km. segment in Turkey. There is also plan to extend the railway corridor to Europe. This plan will successful by railway tunnel under Istanbul strait,that is schedule to become operationalized by 2012. According to Azeri officials, Kazakhstan and China are interested in the project. New railway would allow them access to Europe faster than the existing trans-Siberian route. Kazakhstan and Turkmenistan finalized an agreement to build a railline along the Caspian Sea. Turkmen President Gurbanguly Berdymukamedov asked the commonwealth of Independent Stats (C.I.S) to create north South and west-east transport corridors. Russia announced a long-term plan to develop its transportation network, with a special focus on railways. Another project is T.R.A.C.E.C.A project –Poti-Baku Aktau – Almaty railway corridor built mostly for Container shipment. It is the joint

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decade. The pipeline is 1,504 Km. long, starting at the Tengizchevroil facility in Kazakhstan and running north of the Caspian sea, passing through Southern Russian and terminating in Novorossiysk on the Black sea. CPC utilized and upgraded the existing pipeline from Tengiz to Komsomolskaya, building the additional section from Komsomolskaya to Novorossiysk. The pipeline system used the latest SCADA (Supervisory Control and Data Acquisition) technology. Fiber optic cables buried along the pipeline allow remote monitoring from the control facilities in Novorossiysk; with backup controls at the Kropotkin pumping station, to ensure safe operation and prevent tampering with the pipeline –Ziegler, Charles E. in *China, Russia and energy in the CCA region and East Asia*-Edited Book by – Auty, Richard M. and Soysa; *Energy, wealth and Governance in the caucasus and central Asia – lessons not learned*; Routledge London Publication, 2006. Page No. 238.

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# CHAPTER-3

## COOPERATION AND CONFLICT AMONG THE CASPIAN SEA LITTORAL STATES

### **Cooperation among the Caspian Sea Littoral States-**

In international relations, state has dynamic interest. The interest of state is not static, time to time change. Caspian Sea littoral states are not exception. There is issue of cooperation and conflict among them.

**Issue of cooperation among Caspian littoral states can be classified into following titles-**

#### **Regional organization**

The gathering of the Caspian states in Tehran in February 1992 marked the first regional step towards creating a comprehensive the Caspian legal regime. In Tehran, Iran proposed the creation of the Caspian Sea Cooperation Organization-CASCO to provide a venue for periodic meeting to resolve issues of shipping, fishing, and maritime resources (Gregory, Paul R;2000;32).<sup>1</sup> Iran and Russia also expressed their inspiration to promote regional organization in the General Assembly of United Nations. Both countries produced joint statement on the Caspian Sea in general Assembly of United Nations on October 30, 1995. Under this, it was mentioned- "an organization should be established for cooperation among the Caspian coastal states and an effective permanent mechanism determined for coordination of their actions" (General Assembly- A/51/59-27 January 1996)<sup>2</sup>. "What should be the legal status of Caspian Sea" and "how it would be delimitize"- are basic and deadlock questions in the Caspian Sea Cooperation Organization-CASCO. In the, Almaty (May,1995) meeting of foreign minister of the Caspian States, it was decided that legal departments of the respective CASCO foreign ministers would be in charge of resolving the legal region. In June, 1995, the meeting of legal experts was held in Tehran. In this meeting, it was concluded that the legal status of Caspian Sea should be decided by unanimity. Again this intension was carried out in

November, 1996, that was held in Ashgabat, the foreign minister of the five Caspian nations reiterated that the legal states of Caspian Sea should be decided unanimously by the five littoral states. First meeting of Caspian regional organization was held in Ashgabat (Turkmenistan) in 2002. Still now Caspian littoral states are in the position to remove deadlock on the issue of division Caspian Sea.

In addition, delimitation of Caspian Sea, the CASCO also consider other issues for cooperation. In 2<sup>nd</sup> meeting of CASCO, 25-points have been formulated to cooperate each other. These point included- their military forces are not aimed for use to attack any of the parties and that “under no circumstances, they will allow for their territories to be used by the other states (Katz, Mark: 2008: 210).<sup>3</sup> In this summit, Caspian states also declared<sup>4</sup> will make effort to reinforce peace, stability, economic development and good neighborliness in the region. Shipping and fishing in this region will be implemented under the flag of the Caspian bordering states. They also give stress the importance of expansion of cooperation for resolving the Caspian Sea environmental problems, harmonizing national activities for its environmental protection and cooperating with international organizations for the protection of marine biodiversity. They will never launch a military attack against any of the littoral states. They will not let any country use their soil for a military attack against other littoral states. They believe that the nuclear non-proliferation treaty is one of the most important foundations of international peace and stability, and confirm that all signatories to the NPT have the right to generate and utilize nuclear energy for peaceful purposes within the framework of the NPT and the International Atomic Energy Agency statute. In 2<sup>nd</sup> conference, Iran supported the proposal of Russia to set up a joint naval group for strategic cooperation on the Caspian Sea, to be name – Cas For. Russia has proposed building a canal as soon as possible to connect the Caspian Sea to the Black sea and the Azov Sea, to help establish the North-South Corridor. In the second summit, Iran, Azerbaijan, Russia, Turkmenistan, and Kazakhstan have adopted a joint declaration affirming their solidarity on important regional security issue.

The Caspian States are also the member of Economic Cooperation Organization-ECO. The ECO was brought into being with the signing of the Treaty of Izmir in 1977 (Gregory, Paul R.;2000; 32).<sup>5</sup> The foreign ministers of the ECO countries

meet periodically to deal with political and economic matters concerning the region, including the development of Caspian oil reserves and its transportation. Main issue of this organization is how to provide transportation facility to the Caspian hydrocarbon resource. The ECO was established in 1985 by Iran, Pakistan and Turkey. Main issue behind the establishment of this organization is to promote multi-dimensional regional cooperation with view to creating condition for sustained socioeconomic growth in the member states. With the disintegration of USSR, ECO has expanded its membership among central Asia and Caucasus states. Founder member of ECO has historical affinity with central and Caucasus states. Present members of the ECO are Iran, Turkey, Afghanistan, Azerbaijan, Kazakhstan, Kyrgyzstan, Pakistan, Tajikistan, Turkmenistan, and Uzbekistan. The secretariat and department of the ECO are located in Tehran. Its economic bureau is in Turkey and scientific bureau in Pakistan. The Council of Minister, which is the highest policymaking body is composed of the ministers of foreign affairs. They meet at least once a year. In July 2003, the ECO members have signed the Economic Cooperation Organization Trade Agreement- ECOTA in Islamabad.

#### **Environmental Cooperation-**

Pollution has one of the basic features of cooperation among Caspian Sea states. The Caspian is a closed sea. It means that pollution can remain in the area for decades. Petrochemical and refining complexes on the Absheron Peninsula in Azerbaijan are major sources of land based pollution and discharges and spills from oil and natural gas drilling, both onshore and in the sea itself, have had serious impacts on the environment. Untreated waste from the Volga River into which half of the population of Russia and most of its heavy industry drains its sewage, empties directly into the Caspian Sea. Pesticide and chemicals from agricultural runoff are threats for the sea's Flora and fauna. The Caspian Sea is highly polluted by chemical, municipal discharges and hydrocarbon pollutants. Since the Caspian is an enclosed body of water, discharges from rivers are major contributors to the ecosystem of the basin. They contribute annually ~300 km<sup>3</sup> of water. Three major rivers- the Volga, the Ural and the Terek discharge ~88% of waters into the Caspian with the Volga contributing ~95% of the chemical pollutants. Petroleum refineries contribute greatly to the overall impact of pollution to the

Caspian. Areas which are most affected by the industry of oil, such as the Baku Bay, Apsheron Archipelago and the surrounding islands- the Turkmenbashi, the Chelekin offshore, the Mangishiak Tengiz, and other oil industry. These sites have been described as virtual “dead zones”. Radioactivity near sites of oil production exceeds at places 50 to 150 times permissible background levels. Studies have demonstrated that diseases such as tuberculosis, among others are four times more numerous in the Caspian region of Kazakhstan than in the rest of Kazakhstan on average (Rabinowitz, P.D. et al; 2004; 34).<sup>6</sup> Iran and Turkmenistan are the smallest contributors of industrial pollution though the latter is responsible for considerable flows of toxic waste from the Turkmenbashi refinery and from the extensive mineral extraction and processing plants (particularly of salt ) that are located along the low-lying northern coast (Akiner, Shirin: 2004; 349)<sup>7</sup>. Pipelines in this region have not been updated, is a major source of environmental damage. There have been accidents (e.g. leakage and fires) from time to time, but compared with other cause of pollution in the region, the effects of such incidents have been local and generally of relatively short duration.<sup>8</sup> Scientists estimate that each year an average of 60,000 metric tons of petroleum byproducts; 24,000 tons of sulfites; 400,000 tons of chlorine are dumped into the sea. Concentrations of oil and phenols in the northern sea are four to six times higher than the maximum recommended standards (Rachel Neville).<sup>9</sup> These problems had considered in the Tehran Summit. In this summit there is provision that –the states considered the importance of the expansion of cooperation for resolving Caspian Sea environmental problem, harmonizing national activities for its environmental protection and cooperating with international organization for the protection of the marine biodiversity.

The Caspian Sea is home to a varied array of fish, comprising over 100 species, some of which are unique to this habitat, such as Sturgeon. Commercial sturgeon fishing and the trade of Caviar (sturgeon roe) were inaugurated by Peter the Great in 1672. From 1917 to 1991, the fisheries of the Caspian were divided between the Soviet Union and Iran. Up to 1951, Sturgeon was caught by net in the open sea (Akiner, Shirin; 2004; 353).<sup>10</sup> To maintain fishing stock (sturgeon) in northern basin under the control of the Soviet authorities, fishing was restricted to the lower reaches and delta of the Volga. In the Southern basin of Caspian Sea, Iran also banned fishing with nets in the open sea.



During this period, both countries invested in maintaining fish stocks at a sustainable level. In the 1960s, Soviet hatcheries released 4 million juvenile Sturgeons in the Caspian Sea. By the late 1980s they released 80 million Sturgeons annually. Iran also established extensive hatcheries along the southern coast, breeding such fish as sturgeon, bream, pike-perch and Caspian Trout.<sup>11</sup> After disintegration of the USSR, there was fishing in the Caspian Sea at high level. It is ten to twelve times higher than the permitted amount. The pressure on sturgeon stocks is further heightened by increasing level of pollution. Other problems included the decreasing the number of Coms jellyfish invasion, which threatened the sturgeon's food supply. The combination of such adverse factors provoked fears that the sturgeon population had fallen below a sustainable level. With the disintegration of the USSR, the strong regulatory systems that had existed since World War II also collapsed. Practices that had been banned under the regulatory system such as fishing in the open sea, rather than in the rivers, started to be used by some states. States had several regulations but enforcement is limited due to lack of funding (only Iran whose fisheries were highly controlled. It had successful resources to implement effective management). As a result the illegal catch in the Caspian Sea and the Volga River, it is estimated increased in fishing at six to ten times of legal catch. In 1998, United States Fish and Wildlife Survey estimated that 50% of worldwide trade in caviar is illegal. For example, in 1996 Turkish Statistics recorded 121 tones of caviar exports, where as Turkey does not have any means to produce like this amount of caviar. It is likely that these exports originated from illegal catches from the Caspian. In recent times, there has been a drastic decline in the sturgeon catch. Landings decreased from around 30,000 tons in 1985 to 13,300 tons in 1990, down to 2,100 tons in 1994 and even less around 100 tons, in the last few years. Consequently, the Caspian sturgeon fisheries are thought to be in danger of being completely depleted within the next few years. (Markandya, Anil and Auty, Richard M; 2006; 178).<sup>12</sup> According to TRAFFIC, a program established by the World Wide Fund For Nature, and the World Conservation Union to monitor wildlife trade, the amount of recorded sturgeon catches in the Caspian sea plummeted from 22,000 tons in the 1970s to 1,100 tons in late 1990s. Factors contributing to the decline included reduced river flow, the destruction of spawning sites, official corruption, poaching, organized crime and illicit trade.<sup>13</sup>

In 1998, to promote restoring sturgeon's population in the Caspian Sea, Convention on International Trade in Endangered Species of Wild Fauna and Flora-CITES, brought in strict controls for all species of sturgeon, requiring among other things the introduction of export permits and labeling of products. At a meeting of the CITES held in parts in June 2001, Azerbaijan, Kazakhstan and Russia agreed to a voluntary moratorium on sturgeon fishing in the Caspian for the rest of the year. Iran was not subject to these restrictions as it already had an effective management programme in place. Turkmenistan was not present at the meeting, but it was required to adhere to the agreement or face a complete ban on its caviar exports. Fix export quotas were set for all five littoral states. By March 2002, the Caspian Sea States were considered to have fulfilled these undertaking, so successfully that CITES limited the ban on sturgeon fishing. A senior CITES official commented that at a conservative estimate that number of sturgeon in the Caspian had more than doubled. From 5 million in 2000 to 11.6 million in 2002, of these, about 40 percent were adult fresh (Akiner, Shirin; 2004; 354)<sup>14</sup>. In august 2003, Kazakhstan became the first littoral state to agree to the tagging of baby beluga sturgeon, in order to monitor the survival rate. The natural spawning ground of the beluga sturgeon is the Ural River, which flows across the Kazakh territory to the sea.

There is another organization that giving assistance to protect Caspian environment, like- Coordination Committee for Hydrometeorology and Pollution Monitoring of the Caspian Sea – CASPCOM. In 1994 CASPCOM was established in Tehran, with the support of the World Meteorological Organization. The aim of CASPCOM is to improve cooperation and coordination between the national hydro meteorological services of the Caspian states.<sup>15</sup> Its priorities included the restoration and modernization of station networks and observations systems, the mutual exchange of data and the elaboration and implementation of joint action plans. In 1997, under the UN auspices adopted a Comprehensive Hydro- Meteorological Services for all the littoral states. In September 2003, 8<sup>th</sup> annual session was held in Ashgabat (Turkmenistan). In this session, a draft text was finalized, was about Convention on the Environmental Protection of the Caspian Sea. All five littoral states have signed this convention.

There is another Programme – Caspian Environmental Programme- CEP is supported by international intergovernmental organization, such as the world Bank, European Commission Technical Assistance to the Commonwealth to Independent States (EU – TACIS), Global Environmental Facility, United Nations Environment Programme (UNEP) and the United Nations Developments Programme (UNDP) as well as some private sector donors.<sup>16</sup> These initiative grew out of a series of regional agreements that were concluded in the period 1991 – 1994, such as the Declaration On Environmental Cooperation in the Caspian (1994). In 1997, the organizational basis began to take shape with the establishment of a coordination framework and the identification of the key elements of a trans- boundary diagnostic analysis. Thereafter, teams of country experts produced national reports setting out the main issues and problems as seen from their perspective. In May 1998, CEP – Caspian Environmental Programme was officially launched in Ramsar (Iran). Key diagnostic themes were allocated to each littoral States with programme to be directed and co-coordinated by dedicated the Caspian Thematic Centers located in the respective regional capitals. Thus, responsibility for issues – Data management and strategies to strengthen contaminant abatement and control policies is assigned to Azerbaijan, the strengthening of institutional, legal and regulatory frameworks, also strategies for sustainable management of fish resources and other commercially exploited aquatic bio-resources to Russia; the regional assessment of contaminant levels, the planning and management of regional emergency responses and strategies for trans boundary control areas to Iran; strategies for combining costal desertification and land degradation to Turkmenistan; and strategies for living with water-level fluctuation and the assessment of trans boundary biodiversity priorities to Kazakhstan. In addition to these steps thematic centers for programme coordination unit was established in Baku, to provide a base for overall coordination and management of the CEP. In January 2004, this unit was relocated to Tehran. A regional steering committee was formed comprising representatives from the Caspian states at the level of deputy minister of environment as well as senior representatives of such bodies as international organization and regional aid and development Programme. Initial funding of US \$ 16.6 million was committed by the World Bank and other donor agencies. Subsequently, the European Union and the Global Environmental Facility

pledged some US \$ 10-11 million additional funding for the CEP. A Framework convention has been signed and a Caspian Strategic Action Plan has been agreed by all the participants.<sup>17</sup>

## **Security**

Caspian sea is rich in hydrocarbon resources. Littoral states have more focus how to keep this area to keep safe for hydrocarbon industry. Countries, like-Azerbaijan, Turkmenistan. Economy of these countries is based on trade on hydrocarbon resources. Central Asia is also affected from terrorism particularly of Taliban. Post 9/11, States are more sensible about non-state actor's threat. Terrorism is one of non-state threats. Al-Qaeda announced in its website – titling “wells and pipelines that will scare foreign companies from working there and stealing Muslim treasures, and Middle East Oil facilities would be priority to future terrorist action” (Mahapatra, Chintamani; 2005; 08).<sup>18</sup> Caspian states do not want such type of oil terror in the Caspian Sea. Caspian states are focusing on their military strength and making deal with other countries like, United States (in the light of Partnership for Peace Programme – PFP of NATO). Russia also expressed her idea for the military strength of Caspian States. According to ITAR-TASS News agency (Moscow), Russia thinks that it is necessary to develop military capacity of Caspian littoral states, the transit armed forces in the region, and ensure a stable balance of weapons between the sides. But the development of military capability should be done reasonably so that the Caspian state's armed forces do not pose a threat to each other. Russia is against the militarization of the Caspian Sea region. But demilitarization of the Sea would not be appropriate under current conditions where the world is threatened by the proliferation of weapons of mass destruction and the international terrorism. Full disarmament will give a cart balance to extremist groups (ITAR-TASS).<sup>19</sup>

## Naval Strength of the Caspian Littoral States

**Table- 1**

Navy	Submarine	Patrol and Coastal Combatants	Amphibious	Support and miscellaneous
Azerbaijan	-	6	2	3
Iran	6	53	9	22
Kazakhstan	-	10	-	-
Russia	56	108	25	436
Turkmenistan	-	-	-	-

**Sources:** Compiled from the military balance 2001-2002, IISS, 2001 (Katik, Mevlut: 2004; 299).<sup>20</sup>

The soviet-era Caspian Sea Flotilla was split roughly among the four successor states. Thus Azerbaijan inherited 25 percent of the total strength. Kazakhstan and Turkmenistan ceded their share to Moscow, which now operates a joint flotilla under Russian command. The present Caspian sea flotilla consists of 36 surface combats, of which ten are patrol and coastal combats, five mine countermeasure six amphibious and 15 support ship. It is based in Astrakhan, on the northern edge of the Russian sector of the Caspian Sea. Russia is the great power in the Caspian sea region. In present, the civilian fleet of the Russian in the Caspian sea handles ninety percent of the maritime transportations in the Caspian Sea (Diba, Bahman Aghai; 2006).<sup>21</sup> Russia currently appears to be concentrating on the creation of rapid deployment forces to cope with instability on its southern borders. Consequently, it is likely that it will increase its efforts to strengthen the Caspian force based in Astrakhan. On 23 January 2002, Russia put a new vessel into the service to patrol its Caspian borders. According to ITAR-TASS, a Russian news agency, the ship carries a six-barrel super-rapid-firing cannon and has a 50-knot speed capacity. The agency claimed that it would be used to protect biological resources (Katik, Mevlut; 2004;301).<sup>22</sup> In addition to Naval power, Russia created an air

command in Armenia in 1998. That same year, a headquarters was set up for a joint Ministry of Defense force in Kaspiysk, Daghestan; responsibilities included command of the 136<sup>th</sup> Motorized Rifle Brigade, ships of the Caspian flotilla, army aviation and airborne sub-units as well as coastal units. Russia's Caspian fleet currently has 20,000 personnel and has four missile and artillery fast-attack craft, amphibious plane, patrol and anti-ship helicopters. Now, It has about 40 naval craft based in Astrakhan and Makhachkala. Russia conducted live-fire naval maneuvers in the Caspian in October 2001. Russian President Putin visited Astrakhan in April 2002, called for military exercise. After this announcement, in August 2002, Russia participate a joint exercise with Azeri and Kazakhstan forces. It was the largest joint exercise in the Caspian in post-Soviet history. In this joint exercise, there were the participation of 60 surface ships, 30 aircraft and 10,000 troops. This joint exercise spread along the whole northern and central sections of the Caspian Sea and included combined operations and simulated interaction between the Caspian fleet, the Caucasus Military District and possibly elements of the newly created Urals military district (Cohen, Ariel).<sup>23</sup>

Azerbaijan Navy was formed soon after its independence. It is based in Baku, formerly home to the Soviet Navy. Post Soviet-era, Caspian Flotilla was spilt up. Azerbaijan inherited waterborne ships and infrastructural facilities. According to some estimates, the fledgling navy has about 3,000 personnel in 16 units, also one frigate, two amphibian ships, three support vessel and six patrol boats. In December 2000, Azerbaijani Defense Minister Safar Abiev said that the navy consisted of 80 vessels of various profile. The defense priority for this force is to protect the Caspian sea coast and to guard the oil refinery installations. Azerbaijan is looking towards the United States and Turkey in compare to Russia, to fulfill its military strength. Turkish army officer have trained Azerbaijani army officer. Azerbaijani military students are getting training at Turkish Army Schools and Academy. In January 2002, the United States had suspended restrictions on US aid to Azerbaijan, rewarding the government for its cooperation in the United States war on terror. On 19 April, 2002, President Bush cleared the way by signing the memoranda to authorize arms sales to the Caucasus states, including Azerbaijan (Katik, Mevlut; 2004; 303).<sup>24</sup>

Like Azerbaijan, Kazakhstan is also modernizing its army. The initial stage in the development of a Kazakh navy took place in 1998, when the customs committee assumed the functions of protecting the Caspian zone. In July 2001, Kazakh President Nazarbaev called for creation of a modern army, underlining the need for such a force in the Central Asia. He declared that the western zone of the Caspian, together with Southern Kazakhstan, areas are rich in oil deposits. These areas have strategic importance for the country and a priority for the Kazakh Armed Forces. An official decree was issued in early August 2001 on the creation of a defense institution called the Republic of Kazakhstan Defense Ministry Higher Naval School. In mid-April 2002, Kazakhstan organized a large-scale military exercise in which 6,000 servicemen from all army branches took part. It was held in the Sari Shagan training ground in the west of the country, the area of the main oil reserves.

Turkmenistan, after the break-up of the Soviet Union, Turkmenistan inherited the largest aviation group in Central Asia. It also inherited a 25 percent share of the Caspian flotilla but like Kazakhstan ceded this to Russia, in return for assurances that Moscow would guard its coastline. A new decree was adopted in April 2002, outlining measures to improve the training and operational readiness of the armed forces. A terminal, the largest such facility in the Caspian for any kind of sea going vessel was opened in 2002 at the Turkmenbashi port.

## **CONFLICTS**

We can classify issue of conflict among the Caspian littoral states in following titles-

### **Division of Caspian Sea –**

This is a crucial question among the Caspian littoral states- how to divide the Caspian Sea and what would be the right of the Caspian littoral states to exploit hydrocarbon resources of Caspian Sea. Without division of Caspian Sea, littoral states cannot enjoy their right. I have classified this issue into **two titles-(a)** Historical background about the status of the Caspian Sea - a lake or a sea and **(b)** Opinion or argument of littoral states regarding division of Caspian Sea.

The Caspian is today the largest closed water basin on earth. Twelve hundred kilometers long with an average width of about 250 km. In 1977, The layer of Caspian was about 29m, below from the level of the sea. Today, five sovereign states share access to the Caspian coastline whose total length is about 6500 km. Share of coastline among littoral states is following- Iran-900km, Turkmenistan-1700km, (including the shores of the Kara Bogaz Gol), Kazakhstan -2000km, Azerbaijan-800km, and Russia-1100km. (including 300 km belong to the Astrakhan region, 600 km, to the autonomous entity Dagestan and 200 km to Kalmukia) (Raczka, Witt; 2000; 189).<sup>25</sup> In Tertiary period, the Caspian Sea had linked with the Sea of Azov, the Black Sea, the Mediterranean and the Aral Basin. But at the end of the tertiary period, due to tectonic movement the Caspian Sea had lost its linked to other seas. About a million years ago, it was changed into the land locked Sea.<sup>26</sup> From this tectonic movement onwards Caspian Sea was regarded as lake. It does not have any direct connection to open sea. Only, the Volga river connects this lake to rest of world. The geographical location of the Caspian is quite unique from **three points of views-**

**First**, it is situated in the middle of European continent. **Second**, it lay at the border of two very different physical landscapes. While its northern half was surrounded by plains covered with steppe, semi desert and desert. Its southern part is delimited by the Caucasus and the Kopet Dag mountains. It was characterized by a narrow strip of a fertile but very humid coastland beyond which extended a dry plateau with green oases. In the past, this position had a decisive impact on migration patterns of the people. **Third**, since the centers of great civilizations and densely populated areas tended to concentrate on the rim of Eurasia, the Caspian (together with the Central Asia) for a long time found itself on the periphery or even beyond the inhabitable world as it was long known to the cultural elites of these centre (e.g. Greek, Persian, Mesopotamian, Chinese, Indian, Russia). On other occasions, rather than being a centre of its own to which its locations predisposed it. The Caspian and the surrounding regions were usually be bridge linking those other historical civilizations, a centrally-sited periphery.<sup>26</sup>



Due to its geographical importance, the Caspian Sea attracted the attention of rulers in history. Between 7<sup>th</sup> and 10<sup>th</sup> centuries, it was regarded as an Islamic lake.<sup>27</sup> Between 13<sup>th</sup> and 16<sup>th</sup> century, it was Mongol Lake. Between the late 18<sup>th</sup> and early 19<sup>th</sup> century, it was a Russian lake.<sup>28</sup> Since 1921 and till the disintegration of the USSR, it was a sphere of influence of Iran and the USSR. After the disintegration of the USSR, it became the sphere of influence of five states- Azerbaijan, Turkmenistan, Kazakhstan, Russia and Iran, United Nations Convention on Law of Sea-1982, also declared that, Caspian Sea is a lake not sea. Divisions of Caspian Sea will be based on consent agreement of all littoral states. (United Nations General Assembly declaration – A/51/59, on January 27, 1996).<sup>29</sup>

In present time, the question is how to divide Caspian Sea and what would be the legal status of Caspian Sea. All littoral states have different opinions on this. There are basically two principles for the division of the Caspian Sea- Equitable share, and Sectoral Division or Modified Median Line.

**Equitable share principle** is advocated by Iran. Iran argues that the sea should be divided equitably among the five littoral states to give each an approximately 20 percent share (Liz Fuller).<sup>30</sup> Caspian Sea was divided according to 1921 and 1940 treaties. According to these treaties; Iran has only 13 percent of Caspian Sea. If equal share of the Caspian Sea has been finalized, Iran will benefit greatly. So, Iran is opposing such a type of proposal (like Median line, under this, it will get only 14 percent share of Caspian) which is not beneficial to Iran (Blagov, Sergei).<sup>31</sup> The Principle of equal division of Caspian Sea does not consider, how much each state has actually coastline of the sea. It advocates 20% share, each littoral state will get. This kind of division will lead to (a) – restriction of the Russian forces from traveling freely all over the Caspian Sea (b)- stopping the industrialized fishing fleet of the Russians from using the national sections of the other countries.(c)-disconnection the direct link of the Russians with Iran. The Russian Federation has no land border with Iran at the moment. Following the collapse of the USSR in 1991, the land border of Iran and the Russian was removed.

**Sectoral division or modified median line-** Sectoral division is first time advocated by Azerbaijan. In early days, Russia did not support this proposal. Today all the other littoral Caspian states have agreed with the division of the Caspian Sea according to the median line method, only exception is Iran (Yusifzade, Khoshbakht).<sup>32</sup> In October 1995, Russian Deputy Foreign Minister Alexander Bolshakov proposed the division of Caspian Sea. According to this proposal each Caspian littoral state should be allocated 10 miles of marine territory exclusively for the sea bed mineral exploration, and another 20 miles territory for fishing. It is concerning the exploration of the free sea beyond these territories. This proposal was also about board that was comprised of representatives of the five littoral states of the Caspian Sea. Work of this board was issue the necessary permits for fishery, mineral exploration and oil drilling. In this proposal, Caspian States did not universalize their interest, and deadlock could not removed.

Again, Russia revised this proposal in October 1996. Now, Russia proposed that each coastal state would be allocated a band 35-40 miles along the coastline as national sector was considered feasible; areas outside these sectors should be considered as the common asset of all five states open to their joint use. But, deadlock could not removed. Once Again, Russia reviewed this proposal in November 1996. Russia said- it would accept a coastal zone 45 miles in width for each Caspian state. Russian foreign Minister Primakov acknowledged that many Caspian states are pinning their hopes for economic growth on oil production. Russia is ready to recognize their jurisdiction over sites outside the zone. He added that criteria for such sites would be defined by experts. According to expert proposal, criteria would be defined for such sites. Primakov also said that Russia could agree to widening the fishing zone from 10 miles (as defined in the Soviet-Iranian Treaty 1940) to 20 miles (Ali, Granmayeh; 2004; 21).<sup>33</sup> During 1992-93, Turkmenistan adopted a law on her international frontiers, territorial and maritime, according to which coastal waters, territorial sea and an exclusive economic zone was established. Kazakhstan also advocated the principle of UNCLOS-1982; and advocated for a full division of the Caspian Sea into national

sectors. It also claimed sovereign rights in its territorial water as well as an exclusive economic zone in the Caspian Sea.

In the reference of above all these claims, Russia Azerbaijan, and Kazakhstan agreed to division of Caspian Sea according to modified Median Line. Basic principle of modified median line is based on the more coastal area you have, the more area of the Caspian Sea you will get. According to Modified Median line, Russia and Azerbaijan get almost twenty percent (each of them), Kazakhstan gets 30 percent, Turkmenistan gets almost 17 percent and Iran gets almost 13 percent. The modified Median formula leaves the wasters of the Caspian Sea for common use of the littoral states (Diba, Bahman Aghai; 2006).<sup>34</sup> Although, Caspian littoral states have objection about this proposal. It is following- Kazakhstan objection with Russia regarding this proposal. Russian President Yelstin and Kazakhstan President Nazarbaev signed an agreement in Moscow on 6<sup>th</sup> July 1998. According to this agreement, the northern part of the Caspian Sea and its subsoil minerals-while preserving the joint use of the surface water including freedom of navigation, agreed norms for fishing and environmental protection- shall be divided between the parties along the modified Median line. There followed a definition of the modified median line, and how it should be determined; management of sea bed resources within the boundaries of each sector; and ownership of newly discovered deposits of hydrocarbons around the modified median line before the conclusion of agreement (Ali, Granmayeh; 2004; 33).<sup>35</sup> Azerbaijan had objection with Russia under the modified median line. In January 2001, Russian President Putin Visited Azerbaijan. During this visit, both countries agreed to sign an agreement. Under this agreement, both countries agreed to delimitation of Caspian Sea bed (not the surface waters). A modified median line was to be drawn from an agreed point in the sea's centre to the Azeri-Russian border on the shoreline. Turkmenistan is not satisfied on this proposal due to oil field of Kapaz or Sardor. According to modified median line, this oil field has given to Azerbaijan. Turkmenistan has already showed this problem can be hammered out. Iran is the most volatile actor on this issue. It does not support the modified Median Line. Iran is advocating the complete division of Caspian

Sea at equal share of Caspian littoral states. No matter how much you have Caspian coastline. There was a parliamentary debate over Caspian sea in Tehran, In this parliamentary debate, some of the deputies said that on the basis of the Soviet-Iranian treaties, Iran was entitled to 50 percent, and not 20 percent of the Caspian Sea. Iran took extreme action in July 2001. When Iranian gunboat chased two BP survey ships from a disputed oil field (Alborz / Alov dispute) in the southern Caspian. BP immediately suspended all activity under its contract with Azerbaijan in the disputed oil field (Dunlap, Ben N).<sup>36</sup> Russia and the United States protested this Iranian action.

### **Dispute on Oil Fields-**

Due to lack of universal agreement among Caspian littoral states, oil fields are cause of conflict among Caspian states. These oil fields are **Kyapaz/Serdar** and other disputed fields, and **Alborz/Alov** dispute.

**Kyapaz/Serdar and other disputed oil fields** are cause of conflict between Turkmenistan and Azerbaijan. Azerbaijan had developed oil field – Azeri and Chirag. Turkmenistan claimed that area of Azeri and Chirag fall into the Sovereignty of Turkmenistan. Turkmenistan said these oil fields respectively - Khazar and Osman. Turkmenistan claimed its right in January 1997. Azerbaijan did not accept the claim of Turkmenistan. Azerbaijan argued its position in the reference of the 1970 Soviet division of the Caspian Sea that had allocated national sectors to the respective Union Republics and maps of this period were clearly indicate that the ownership of these oil fields had been assigned to Azerbaijan. Turkmenistan also claimed its sovereignty over Serdar oil field. Serdar oil field is known as Kyapaz in Azerbaijan. This field is located in the middle of the Caspian Sea, 145 Km off the coast of Azerbaijan. According to Azerbaijan Sources, Kyapaz field was discovered by Azerbaijani experts in 1959, and the first oil well was dug in 1986. In 1988, the first year of production, the yield was over 300 million tons. Due to claim of Turkmenistan, Russian oil company- Rosneft withdrew its project from Serdar oil fields in July 1976 (Ali, Granmayeh; 2004; 26).<sup>37</sup> Turkmenistan

also issued an international tender in September 1997 for Serdar oil field. Azerbaijan warned that it would impose sanctions against companies operating in Azerbaijan if they take part in non-Azerbaijani tender to explore or develop a disputed oil and gas field to which Azerbaijan lays claim. In June 1998, the United States oil company Mobil was awarded the contract to develop the Serdar deposit but failed to go ahead with the job. A statement dated 26 June 1998, said that the company had received a warning from Azeri officials not to work on the disputed oil fields.

**Alborz/Alov** dispute is between Iran and Azerbaijan. In Iran this area is known as Alborz. In Azerbaijan is known as Alov-Araz-Sharq. This disputed field is located about 90 miles south east to Azerbaijan capital Baku. It would be within Iran's sovereignty, if Iran acquired 20 percent share of the Caspian Sea. On 14 December 1998, Iran signed a deal with Anglo-Dutch Shell Company and United Kingdom independent Lasmo to develop the Southern Caspian. The two companies were assigned to carry out a two-part study of the unexplored waters in the Southern part of the Caspian Sea. According to the Iranian reports, the project covered an area of a minimum of 10,000 square kilometer and a preliminary study had been implemented by a subsidiary of the national Iranian oil company, named- Khazar Exploration and Production Company. In earlier, this project did not explain specific location latter, it became clear in a separate contract, signed in 1999 with the semi-state Petro Iran Development Company- PEDCO that the Alborz Block was included in the Iranian project. On 10 December 1998, the Azerbaijani Foreign Minister lodged a protest at the deal between Iran and the Shell-Lasmo consortium On 16 December 1998, Iham Aliyev, Vice President of SOCAR- State Oil Company of Azerbaijan Republic condemned the Iranian agreement and threatened Iranian companies with expulsion from Azerbaijan.<sup>38</sup> Iham Aliyev also said – Iran's signing of the contract with the British Companies shell and Lasmo for a seismic study in the Caspian will complicate Iranian companies' activities in Azerbaijan. This will influence the possibility of them getting project in Azerbaijan in future. In response the Iranian Foreign Ministry referred to the Soviet-Iranian treaties of 1921 and 1940, positing out that there was no document on the division or restriction of the limits of the Caspian Sea, and consequently the issue of Azeri sector of the sea lacked legal basis. Concurrently the creation of an international consortium to explore and develop the deposits of Alov

was announced by Azerbaijan, turning the dispute into a potential confrontation. Iranian Foreign Ministry rejected the validity of this agreement. When Iranian Petro Iran Development Company –PEDCO, embarked upon seismological operation in 1999 in designated blocks, including Alborz . It forced indirect obstruction by Azerbaijan. According to an Iranian source, the Dutch Norwegian company Fugro- Geotem which had been invited by the Iranian firm for cooperation in seismic research, was threatened by the vice-president of SOCAR. Iiham Aliev who stated that it's assests in Azerbaijan would be seized, if it did not suspend working in the Iranian project. On 21 July 2001, Iran's Deputy foreign Minister Ali Ahani summoned the Azerbaijani charge` d'affier and handed him a strong protest at the violating of the "Alborz oil region" by Azerbaijani. The note stressed Iran's firm resolve not to permit foreign counties or companies to engage in any activity which was against its national interest. On 23 July 2001, an Iranian gunship entered the dispute waters and demanded that two Azerbaijani survey vessels operated by BP Amoco to leave the region. An Iranian warplane also flew over the location in a warning manner.

### **Nagorno – Karabakh**

Nagorno-Karabakh is disputed area between Azerbaijan and Armenia. It does not directly relate to Caspian Sea. But due to this dispute, Caspian littoral states have suspicion to each other, particularly Russia and Azerbaijan. They are not coming under a universal agreement to cooperate each other.

Nagorno word is translation of Russian word- Nagorny that means is high land or mountainous. The origin of Karabakh is Turkic and Persian that means – Black Garden. So meaning of Nagorno-Karabakh can say mountainous black garden. Nagorno-Karabakh has a total area of 4,400 square kilometer. It is an enclave that is surrounded entirely by Azerbaijan. Capital of Nagorno-Karabakh is Stepanakert. It is known as Khankendi in Azerbaijan. The territory of modern Nagorno- Karabakh is belong to historic region of Karabakh that lies between the river Kura and Araxes, and the modern Armenia- Azerbaijan border.

Nagorno-Karabakh falls within the lands occupied by people known to modern archaeologists as the Kura-Araxes culture, who lived between the two rivers- Kura and Araxes. In the beginning of the 2<sup>nd</sup> century B.C. Karabakh became a part of Armenian Kingdom as a province of Artsakh. After the partition of Armenia between Byzantium and Persia in 378 A.D. Artaskh became a part of Caucasian Albania (Internet sources).<sup>39</sup> Between 7<sup>th</sup> and 8<sup>th</sup> centuries, this region was ruled by the caliphate appointed governors. In the 11<sup>th</sup> century, the Khachin principality was established in Artsakh. In the 15<sup>th</sup> century, the territory of Karabakh was the part of the states of Kara Koyunlu and Ak Koyunlu. In the early 16<sup>th</sup> century, Ak Koyunlu state was disintegrated. Then, this region was ruled by Safavid dynasty of Persia that created the Gnaja-Karabakh province. Despite, there was also a local Armenian leadership that was emerged in 14<sup>th</sup> century. This local leadership was emerged into then from five noble dynasties. The title of these dynasties was meliks. Out of 5 meliks, only one melik of Khachen was native to Karabakh, remaining meliks of Khachen were founded by migrants from other parts of the south Caucasus. Under the control of the Ganja-Khanate of the Persian Empire, the Armenian meliks were granted a wide degree of autonomy by the Safavid Empire over upper Karabakh. The Armenian Meliks maintained control over the region until the 18<sup>th</sup> century. In the early 18<sup>th</sup> century, Persia's Nader Shah took Karabakh out of control of the Gauja Khans. At the same time, the Armenian meliks were granted supreme command over neighbouring Armenian principalities and Muslimjs Khans in the Caucasus, in return of the victory of Meliks over the invading Ottoman Turks in the 1720s. In the mid 18<sup>th</sup> century, due to internal conflict in meliks, the Karabakh Khanate was formed. In 1805, Russia got Karabakh by the Kurekchay Treaty. The Kurekchay Treaty was signed between the Khan of Karabakh and Tsar of Russia Alexander-I. Latter in 1822, the treaty of Turkmenchay was signed. As a result of these treaties Karabakh Khanate was dissolved and area became the part of the Elisabethpol Governorate within the Russian Empire. After the Bolshevik Revolution of 1917, Karabakh became part of the Trancaucasian Democratic Federative Republic. After some times, it was divided among Armenian, Azerbaijani and Georgian states.<sup>40</sup>

This division led the conflict between Armenia and Azerbaijan. In July 1918, the first Armenia Assembly of Nagorno-Karabakh declared the region self-governing and created a National council and government. During the World War I, Ottoman Army was defeated. The British command provisionally appointed Khsorov Bey Sultauov as the governor-General of Karabakh and Zangezur, till final decision of Paris Peace Conference came out. The appointment of this decision was opposed by Karabakh Armenians. In February 1920, the Karabakh National council preliminary agreed to Azerbaijani jurisdiction, while Armenian elsewhere in Karabakh did not support this and started guerrilla fighting. In April 1920, while the Azerbaijani Army was locked in Karabakh fighting local Armenian forces, Azerbaijan was taken over by Bolsheviks. Subsequently, the disputed area of Karabakh, Zangezur and Nakhchivan came under the control of Armenian. During July and August 1920, the Red Army occupied Karabakh, Zangerzur and part of Nakhchivan. On August 10, 1920 Armenia signed a provisional agreement with the Bolsheviks. In this agreement, it was mentioned that temporary Bolshevik occupation was ratified until final settlement would be reached. In 1921, Armenia and Georgia also came under the flag of the Red Army. Stalin created the Autonomous Oblast- AONK on 7 July 1923 and drew its border so as to leave a narrow strip of land separating it physically from Armenia. As an autonomous area under Azerbaijani suzerainty, the AONK was granted the authority to administer its own affair in the realm of culture and education, and parallel party and state organ were created and staffed by Armenians. For the Armenians, Stalin's 1923 decision was a tremendous loss; for the Azerbaijanis, it was a great victory, ratifying what was viewed as their historical right to rule region. In 1937, the region's name was changed permanently to the Nagorno-Karabakh Autonomous Oblast- NKAO. Armenian had complained on decision of Stalin. Although Armenian complains about the situation were speechless during the Stalin years, the cause of unification between Armenian and Nagorno- Karabakh was given again taken by, during the 'thaw' of the Krushchev period. A petition signed by 2,500 karabakh Armenian was sent to Krushchev on 19 may 1964. Its lengthy text detailed Azerbaijani's "chauvinistic, pan-Turkey policy" aimed at driving the Armenian out of their "ancestral homeland" and it concluded with a plea for prompt reincorporation into the Armenian SSR (Croissant, Michael P; 1998; 20).<sup>41</sup>



However, in the heart and mind of the Armenians remained a strong desire for unification with their brethren in the mountainous area and vice-versa, while the Azerbaijanis retained an equally strong desire to retain sovereignty over the land. Therefore, when the “Thaw” of the Gorbachev period arrived tensions and irredenta that had been joint below the surface of Armenia- Azerbaijan relation were released that resulted in a spiraling cycle of violence and bloodshed between the two republics that outlasted the Soviet Union itself. Gorbachev’s program of potential “democratization” gave impetus to the rise of grass roots political movements in the republics. In case of Armenian and Azerbaijani reawakening of nationalism and irredenta on the part of the former brought the question of Nagorno-Karabakh on the surface of relations between the two republics once again. In the latter part of 1987 the Armenians growing optimism for Union with Nagorno-Karabakh was given powerful voice in the budding Armenian nationalist movement. Demonstrations in Yerevan and Stepankert (the capital of Nagorno-Karabakh and autonomous region) in support of peaceful unification became more frequent drawing first hundreds and then thousands of people. Azerbaijan viewed the Armenian moves with hostility and Azerbaijan party officials complained to Moscow that the rallies threatened the republics territorial integrity. Armenian demonstrations were responded to sporadically by the Azerbaijanis and emotions ran high on both sides. In this situation, milestone event was occurred on 20 February 1988, when the Soviet of people’s Deputies of Nagorno-Karabakh passed a resolution by a vote of 110-17 conceding the request of the transfer of oblast to the Armenia Soviet Socialist Republic (Singh, Amitabh ;2002; 18).<sup>42</sup> This unleashed violence more importantly in the Sum gait town of NKAO in which about a hundred people were killed. The Armenians and Azeris turned upon each other once again with lethal violence marking the opening blows in a body and intractable clash that outlasted the very forces which helped in its resurgence. This resulted in mass exodus of refugee and growth of violence and hardening of the stance on both the sides. In 1989, this conflict was changed into the intensified inter-ethnic conflict. Soviet Union granted authority to Azerbaijan to control this situation around Nagorno-Karabakh. Meanwhile, Armenians in Nagorno-Karabakh approved the creation of an independent state. Issue of Nagorno-Karabakh became critical, when Azerbaijan and Armenia got independence in 1991.

On December 10, 1991 after disintegration of USSR, a referendum was held in the Nagorno-Karabakh Autonomous oblast and the neighboring Shahumian region. According to this referendum, Nagorno-Karabakh declared its independence from Azerbaijan. This declaration was not recognized by any international organization or country including Armenia. In the spring 1991, more serious fighting erupted that involved Soviet troops, in addition to Armenian and Azeri forces. After the disintegration of USSR, the autonomous region of Nagorno-Karabakh rejected unification with Armenia and declared complete independence in early 1992. By the mid 1992 the Azeri had fled and the Lachin corridor, a land bridge from the region to Armenia, was established. The Armenia managed to go still further in 1993, when their forces occupied almost 20% of Azerbaijani territory outside Nagorno-Karabakh. They have refused to retreat from this land until the independence of Nagorno-Karabakh is recognized and its security guaranteed. Since 1994, the situation has been stalemate, when the bulk of fighting ceased in the wake of signing of a ceasefire in May 1994. Ceasefire was occurred with the intervention of Russia. Meanwhile on February 02 1998, Armenian deputies to the National council of Nagorno-Karabakh voted to unify the region with the Armenian SSR. On February 22 1998, the first direct confrontation of the conflict occurred as a large group of Azerbaijani marched from Agdam against the Armenian populated town of Askeran "Wreaking destruction en route."

Today, Nagorno-Karabakh is a de-facto independent state, calling itself the Nagorno-Karabakh Republic. At present, mediation process is going on, but deadlock is still remaining. Azerbaijan argued that Armenian troops should be withdrawn from all areas of Azerbaijan (outside of Nagorno-Karabakh). All displaced persons will allow returning to their homes, then status of Karabakh can be discussed. Armenia argued that Nagorno-Karabakh is not legal part of Azerbaijan because both (Nagorno-Karabakh and Azerbaijan) declared their independence from USSR. so both are equally successor states of the Soviet Union. It wants first talk on status of Nagorno-Karabakh, then allow to refugees to return their homes. Since the beginning of the conflict, Russia has been the first and key player in the negotiations process. Armenia wants Russia support to solve this problem and counter-attack growing United States influence in this region. Azerbaijan wants western support, particularly the United States to solve this problem

and balance Russian influence in the region. Russia has been supporting Armenia in this issue and also largest arms supplier of Armenia. Russia operates two military bases in Armenia and the military alliance continues to expand. In February 1997, it was revealed that the Russian Defense Ministry had supplied a considerable amount of military hardware to Armenia between 1994 and 1996, apparently in violation of the Conventional Armed Forces in Europe Treaty.<sup>43</sup> Russia perceives Armenia as strategic partner in the Trans Caucasus region. In August 1997, Russia signed a treaty with Armenia on friendship cooperation and mutual assistance. According to this treaty Russia committed itself to the defense of Armenia should it be attacked by a third party. This region is link between the Caspian Sea and the Black Sea. In the views of Geo-economics strategy, it is fruitful option for transportation of hydrocarbon resources of the Caspian Sea. So Russia is giving importance to this region under near abroad platform. After of disintegration of USSR, Turkey looks the southern region of the former Soviet Union as a source of potential opportunity. Turkey views this area in geo-economics terms and opportunity for Caspian oil and gas. Turkey eyed Caspian oil and gas with desire not only to get revenues for their shipment to the Mediterranean Sea via Turkish pipelines, but also to meet domestic demand for energy. Turkey wants stability in Trans Caucasus region, and interested in Nagorno-Karabakh region. Turkish President Suleyman Demirel proclaimed fully identity of the positions to Turkey and Azerbaijan over the regulation of the Karabakh conflict as well as the regional stability. United States evolved in this conflict in 1997, when it joined Minsk group. Minsk group is international mediation to solve Nagorno-Karabakh, crisis. It came into light after cease fire between Azerbaijan and Armenia and established- Conference on Security and Cooperation in Europe. It was held in Minsk. So it called Minsk Group. The members of the Minks group are- Armenia, Azerbaijan, Belarus, Czech Republic, France, Germany, Italy, Sweden, Turkey, and United States. Post 9/11, United States wants to counter all type of terrorist supporting place- drug trafficking Arms supply. Central Asia is vulnerable place for terrorist. The United States more engage in this region. On the issue of war on Terror, United states also get support of Russia. Azerbaijan supported the construction of BTC pipeline basic aim as an alternative of Russian pipeline and pull more attention of international actors

on the issue of Nagorno-Karabakh (Shaffer,Brenda;2005;345).<sup>44</sup> Trans Caucasus region serves as a land bridge to Europe from Asia and vice-versa.

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## **Chapter- 4**

### **Caspian Basin States and Major International Actors**

During cold war, Caspian Sea region was regarded as preserve area of the Soviet- Iran. No one state attracted during this period. Post cold war, this region has attracted the attention of world actor. There are many countries at the arena of international surface. I am dealing only three major countries or union that attract to Caspian region. The three countries or union are the United State, China and European Union.

#### **United States and Caspian Sea**

In the early year of the post cold war era, the Caspian region came into sharp focus for Washington. This new attention was based on the direct interest of individual former Soviet republics. United States President, Bill Clinton came up with “Engagement Policy” to strengthen relation with newly independent states. In addition to, the implementation of the strategic doctrine, the United states was also largely focused on implementation changes in its relationship with major regional actors, such as Russia, Turkey and Iran (Page, Carter;2004;263).<sup>1</sup>

United States involvement across the entire Trans Caspian has taken off since 1994-95 when Washington conclusively rejected Russian’s claims for energy monopoly. United States boosted its relation with local government to show its presence in this area. In early period, it accepted inferior position compare to Russia. United States official piously intone vision of a win- win situation for everyone, where everyone has shared interests in developing these energy markets of Caspian region. United States writers increasingly call this area as “Greater Middle East” which it is deemed to be part of the “strategic fulcrum of the future” or the “strategic high ground” due to its energy resources. Robert Blackwill and Michael Stuermer claim that- “No western power has been safe without some measure of influence or control over the Southern and eastern shore of the Mediterranean. This geographical area now includes the Transcaspian. Since, the southern Mediterranean is precisely where Washington and Turkey want the terminus of transcaspian oil and gas to be.”(Blank, Stephon;1999;152-153).<sup>2</sup> Richard Morningstar, Special advisor to the President and Secretary of State, testified the four objective of



United States policy in the Caspian region in Senate International Economic policy, Expert and Trade Promotion Subcommittee hearing on March 3, 1999. These policies are following (Kasey shewey white and david Applegate)<sup>3</sup> –

(a) Strengthen the independence, sovereignty and prosperity of the new Caspian states and encourage political and economic reforms.

(b) Mitigate regional conflicts by building economic linkages between the new states of the region.

(c) Bolster the energy security of the United States and our allies and the energy independence of the Caspian by ensuring the free flow of the oil and gas to the world market

(d) Enhance commercial opportunities for United States companies.

To analyse the policy of United States towards Caspian region, it can be classified among following framework (a) Oil and natural gas as an alternative of Persian Gulf (b) To counter Terrorism (c) Democracy.

#### **Need of Oil and Gas as an Alternative of Persian Gulf-**

Senate Richard Lugar, influential Chairman of the Senate Committee on Foreign Relations, brought out the implication of higher energy prices for the country's economic growth and foreign and national security interest. He said- "high oil prices have hurt American consumers at the gas pump and record revenues flowing into oil producing nations are changing the world's geopolitical landscape. Increasingly, oil is the currency through which countries leverage their interests against oil dependent nations such as ours. Oil is just not another commodity. It occupies a position of singular importance in the American economy and way of life. In 2003 each American consumed about 25 barrels of oil. That is more than double the per capita consumption in the United Kingdom, Germany and France and more than 15 times that of China with less than 5 percent of world's population, the United States consumes 25 percent of its oil. This year 2005, the United States has spent about \$19billion per month on oil imports. The cost of imported oil now accounts for approximately one third of our trade deficit (Mahapatra, Chintamani;2005;09).<sup>4</sup> United States is energy thrust country. According to the May 2001 Report of United States National Energy Policy Development Groups– energy crisis

is crucial for United States, and also give recommendation to avert this. According to this report- nation is too dependent on one sources of energy oil and on too few regions particularly the Middle East. In 2001, imported crude and petroleum products represented around 59 percent total United States oil demand. About 48% of United States gross crude oil imports comes from the western hemisphere (19 percent from south America, 15 percent from Mexico, 14 percent from Canada), while 30 percent come from the Persian gulf region (18 percent from Saudi Arabia 9 percent from Iran and 3 percent from Kuwait). In Middle East region, Saudi Arabia is main exporter of oil for United States. Energy Security has been a major priority for the Bush administration, since its inauguration in January 2001. Both the president and vice president had connections with the oil industry before they were elected to office (Bahgat, Gawdat; 2003; 447).<sup>5</sup>

United States understands Caspian Sea as an alternative to Persian Gulf. After 9/11 United States wants a safe region for energy supply. Saudi Arabia is the main exporter of oil for United States. President Bush believes that the United States is over dependent on a small number of producers in an unstable region. Control to that assumption has been the relationship between the United States and Saudi Arabia an agreement that gives the one access to the country's oil wealth and the other the protection of the world's only superpower. To great extent the ruling house of Saudi depends on the Washington to keep it safe from internal and external threats, but it comes at a price. There is a sizable United States military garrison in the country and United States war planes are familiar sight at Saudi air bases. There are already a focus for growing discontent amongst younger Arabs, who regard the American military presence as an insult to Islam and Muslims. United States does not want any critical situation for its oil and gas.

United States is taking step to diversify its energy suppliers the recommendation of President Bush's National Energy Policy Development Group focus substantial attention on Caspian Energy. The oil from the Caspian Sea is looked upon by western countries as a strategic priority for following reasons (Karagiannis, Emmanuel; 2003; 154)-<sup>6</sup>

a) the proven and projected reserves of Azerbaijan, Kazakhstan and Turkmenistan will be crucial to meeting the expected demand for oil in the next years.

b) The oil of this region is considered to be of good quality.

c) The biggest part of this oil is intended for export, since the needs of Caspian producers are relatively low and are expected to remain low.

d) Regional governments have lack of capital and the technology to proceed independently to the development of these oil fields. This situation offer western countries considerable investment opportunities. Western firms have a strong presence in the regions they have pored many billion dollars into oil and gas exploration, betting on a future payoff.

e) Caspian Sea States are not the member of OPEC, except Iran. In other words, supply from Caspian region is less likely to be affected by the price and supply policy applied by the oil- exporting cartel. Flows of large volumes of Caspian oil through non-OPEC lands would erode the power of OPEC as well as its ability to maintain high oil prices and to use oil as a mode of political blackmail.

The capacity of Caspian Sea is quite enough to be an alternative Persian Gulf. So, United States and Western countries see this region as future source of oil and gas. Capacity of Caspian Sea is unknown. It came into light during 1990. Search for new oil fields is still going on. Exploration companies are getting success to find out new reserves in Caspian Sea. In December 1995, the American Petroleum Institute asserted that the states bordering the Caspian Sea contained two –third (or 659 billion barrels) of the world’s known reserves of a million barrels of oil. On 30 April 1997, the Wall street journal estimated “possible” reserves in the Caspian region at 178 billion barrels. US Deputy Secretary of State Strobe Talbot have quoted a figure of up to 200 billion barrels. According to Geoffrey Kemp, who concedes that the oil and gas reserves of the Caspian basin could be as high 200 billion barrels oil and 279 trillion cubic feet of natural gas (Kuninolm, Bruce R;2000;549).<sup>7</sup> Geologists classify between 20 billion and 30 billion barrels of Caspian oil reserve as proven. Reserve numbers and unexplored areas can prove these higher. (Chenoy, Dr. Anuradha M; 2005; 28).<sup>8</sup> There is different opinion about reserve of the Caspian Sea. But there is consent on one subject that future

of Caspian Sea resources is bright. It would be take an important place in the exporter of oil and gas market at international arena in coming days. About the future potential of the reserves of Caspian Sea, it is said – By 2150, oil and the Caspian Sea might be the last great oil find before renewable energy becomes more of reality (Bino,Richard R;1998;80).<sup>9</sup>

In coming decades, United States will need more oil. According to United States Departmental of Energy-DOE, nation's energy consumption will increase by 1.5 percent annually from 2000 to 2020, and that oil's share in the energy mix will be increases slightly from 39.4 percent in 2000 to 39.7 percent in 2020. The rising demands for crude and petroleum products are paralleled by a persistent decline in production. Over the next tow decades the United States oil production is projected to decline at an average annual rate of 0.2 percent. This expanding gap between domestic demand and production has been and will continue to be filled by imported oil the high dependence on which has significant economic and strategic ramifications. The value of petroleum imports can rise from \$ 94 billion in 2001 to as high as \$186 billion by 2020 (Bahgat, Gawdat. 2003; 448).<sup>10</sup> To fulfill its oil and gas needs, United States looks toward newly independent states – Azerbaijan, Kazakhstan and Turkmenistan.

United States wants a commercial partner like Saudi Arabia in the field of oil market. Right from beginning, the interest of the United State was focused on Azerbaijan, which was described as vitally important “Cork” controlling access to the bottle that contains the riches of the Caspian Sea basin and central Asia. United State also see Azerbaijan as a “hub state” with the potential of becoming the “Jewel of the Caspian sea” linking the states of central Asia to the Caucasus and into the Black sea and the eastern Mediterranean. For United States Azerbaijan is a key to enter Caspian door. Azerbaijan wants to preserve its national independence restored territorial integrity and resist Iran's pressure, after independence. Azerbaijan also wants to break the blockade imposed on it by the Moscow-Yerevan-Tehran alliance. To carryout this job, Azerbaijan has chosen an alliance of United States, Georgia and Turkey. Turkey was the first country that recognized Azerbaijan's independence. Presence of United States in the oil industry of Azerbaijan was identified with contract of the century. A contract of century was singed on 20 September 1994. This contract led to the growing interest of western

countries, the United States in particular in establishing stability in the region. Baku has now resumed the pro western track in its foreign policy that the Elcnibey government had tried unsuccessfully to promote. It was as a result of this policy that the Azerbaijan Republic managed to endure the constant pressure on the part of Russia. In November 1997, Azerbaijan was able to export its first contract oil to foreign markets.

Caspian region is land locked. In this region, production of oil and gas is not a problem; problem is transportation of oil and gas. Without crossing the other territory of Caspian States, oil and gas could not be exported to world market. In this reference, United States perceived Turkey and Georgia are crucial allies. United States proposed BTC (Baku-Tbilisi- Ceyhan) pipe line. It was a costly project. There were so many questions on this project- Environment, Territorial dispute and legal states of Caspian Sea. In this direction, one crucial step was taken by Azerbaijani President Alive, announced that has was firmly inclined toward the BTC of main export pipeline and that Azerbaijan would not change its position on the legal status of the Caspian sea. The new constitution of the Azerbaijani Republic was adopted in November 1995. It confirmed that the Azerbaijan sector of the Caspian Sea is an inseparable part of the Azerbaijan Republic (Nassibi, Nasib; 2004; 164).<sup>11</sup> Finally BTC pipeline is constructed in 2005 with the project cost of \$3.6 billion, the BTC pipeline is designed to carry 1million barrels per day- a little over 1 percent of the world's daily oil consumption. Kazakhstan has also announced that it intends to export part of its expanding the scope of the project. Parallel to the oil pipeline, a natural gas pipeline from Baku to through Tbilisi- to Erzerum in Turkey is set to become operational in 2006. BTC pipeline is the great success for United States. Now, United States can import oil and gas from Caspian region through Euro-Atlantic alliance. The establishment of the BTC pipeline and its transport corridor allows the newly independent states of the Caspian to decrease their dependence on Moscow and make cooperation with the United States their new security orientations. The United States has used these new relationships to enhance transportation capabilities for its two major arenas of military operations- Afghanistan and Iraq. Azerbaijan hoped that BTC project would enhance international efforts to resolve the Nagorno- Karabakh conflict with Armenia (Shaffer, Brenda: 2005; 343).<sup>12</sup>

Both United States and Azerbaijan see BTC pipeline is win-win strategic. Kazakhstan looks towards United States because it is clear that alone Russia is not able to fulfill the need of Kazakhstan in the field of technology and finance. Kazakhstan main strategy is the diversify source of funding to safeguard economic stability during the state building process and consolidation of his power. Kazakhstan President noted- “the investment potential of Kazakhstan is so large that it would require resources, which are not available, even to the highly developed countries.” Thus the requirement for a diversified set of investors that represents dozen of countries from Europe and Asia in addition to United States is an imperative in Kazakhstan’s policy. The first oil contract signed by Kazakhstan was for the Tengiz onshore field. Tengizchevroil is joint ventures between the Chevron (a United States company) and Kazakhstan that was signed in April 1993. Kazakhstan also sees United States an alternative of Russia in Caspian Sea particularly in the area of transportation. The problem of transportation or export was arised in 1993. During this period, Russia complained about the presence of mercaptans, sulphur compounds found in kazakh oil. Although under the Soviet system, official did not object to the same mecaptans. Post- Soviet Russian authorities now claimed, they had to limit Tengincheveroll’s access to the Atyrau – Samara pipeline until the situation improved. In March 1993, the Russian government signed an agreement with chevron and the Kazakhstan government to allow Tengizchevroil to export a certain number of barrels per day with an option to increase the quota once the mercaptans problem was eliminated. Chevron duly invested \$ 100 millions in the technology to remove the mercaptans from the oil and the technology has been functional since the end of 1994. Nevertheless, Russia did not consistently permit Tengizchevroil to export even the agreed on quota. In 1995, Chevron almost cancelled the project and stopped its projected investment (IPCK, Pinar: 2007; 1185).<sup>13</sup> In April 1996, Mobil (United States) brought half of Kazakhstan’s 50% share in the Tengizchevroil project. At the same time, Russian oil firm LUKoil reached a preliminary agreement with the Kazakhstan government for the purchase of the part of Kazakhstan’s remaining stake in Tengiachevroil. LUKoil’s share in Tengizchevroil was funded primarily by the Lukoil’s strategic partner Arco (US). Kazakhstan president Nazarbayev wants multi dimension in his foreign policy. He wants to maintain good relation with Russia, China and United States. He does not want similar

problem, those had experienced in Tengizchevroil project. Kazakhstan did not have an exclusive commitment to a western route for its export outlet as Azerbaijan did regarding BTC pipeline. An American oil company officer explained the position of Kazakhstan as follows- *"Kazakhs were more close to Russian influence. Russian and Kazakhstan had a five-year transportation of oil agreement. Offshore fields were also latter on the table. The Kazakh government was pretty consistent in directing companies first to Tengiz then to other onshore fields and later to north Caspian offshore blocks. They wanted oil to be produced and exported as quickly as possible .For example Iran was a problem for transportation of oil from big oil consortium in Kazakhstan. Agip was chosen for the operatorship in OKIOC (the largest consortium to explore and produce oil in offshore fields of the northern Caspian shelf of Kazakhstan). Since, it is a european company. European companies provide access to TACIS money and no sanctions for transportation of oil through anywhere for them. So Kazakhstan wants a multi vector foreign policy, in which balances the strategic partnership with Russia in the CPC pipeline and the long-term goal of new pipeline bypassing Russia."*<sup>14</sup>

Turkmenistan has vast reserved of natural gas. It has third rank in world for natural gas reserves. Like Azerbaijan and Kazakhstan, Turkmenistan did not realize to attract foreign investment early. Turkmenistan did this job in December, 1996, when Turkmen president Niyazov signed the law on hydrocarbon resources in April 1998. He signed a partial privatization decree (Gregory, Paul h; 2000; 47).<sup>15</sup>

Russia is the great power in the Caspian Sea. United States understands this statement. United States understand without taking confidence of Russia, oil and natural gas could not be exploited. There will be deadlock; this situation will be negative for both countries. So United States wants to promote win-win strategy. The Bush administration has focused on Moscow for *two reasons*. The *first* is the sharp increase of Russian oil production and export since the late 1990s. Now, Russia has sufficient crude supplies to contribute to American and global energy security. Russia is a major player in the global oil market. Now, it has comfortable rank in the market of oil producers and exporter. *Second*, President Vladimir Putin made a significant strategic choice early on to ally his country with the United States and Europe in return for economic incentives (Bahgal, Gawdat: 2003; 449).<sup>16</sup> Russia also understand that alone it can't fulfill the need of

Caspian Sea in coming days. Moscow came to realize that the overburdened Russian pipeline infrastructure could not accommodate the increasing volumes of Caspian oil (Shaffer, Brenda: 2005; 345).<sup>17</sup>

Before Vladimir Putin regime, presence of United States in Caspian region was perceived as great game or as competitor. When Putin came into power in 2001, changed the motive behind the United States. Putin also wants win-win strategy. Since 9/11, the two nations have cooperated against a common enemy- militant Islam, embodied in al Qaeda and Chechen fighters. There is threat of Taliban in central Asia and Trans-Caucasus region. United States does not want any terror attack at energy sources keep safe from the grip of terrorist organization. In Caspian region, there is large scale investment of American and western companies. These companies want security from terrorist. To do this job United States see Russia is as partner. Russia also experienced terrorist attack –Bhushan crisis. Both countries are standing altogether for the security of Caspian regions. Russia has been presenting itself recently as a reliable source of energy supplies to the global economy. A major step in this direction was taken in May 2002, when President Bush and Putin signed an agreement to forge and ‘energy partnership’ between two nations (Bahgat, Gawdat: 2003; 448).<sup>18</sup> This agreement is based on the two foundation- American oil companies will provide badly needed financial resources to Russia’s energy industry, and in return, Moscow has presented itself and an alternative to the volatile middle East and as a stable oil supplier to the United States. In 2002, Russian President Putin clearly said about his foreign policy towards United States in Caspian Sea. That time Putin went United States and he was asked about territorial competition between Russia and the United States over central Asia and to state where he “draws the line” in terms of Russia’s strategic interests. On this the Russian President replied-“What was important in the former frame of reference is largely becoming irrelevant at present. If Russia becomes a full-fledged member of the international community, it need not and will not be afraid of its neighbours developing of relations with other states, including the development of relation between the Central Asian states and the United States. Rather there were geo-economic benefits to be had from cooperation and deal making in the region.” Addressing a conference of Russian Diplomats held in Moscow in July 2002



President Putin again harped on the strategic stability through “confident partnership” with the United States as one of Russian’s clear-cut priorities (Patnaik, Ajay;2005;02).<sup>19</sup>

#### **To Counterterrorism-**

Caspian region is not safe from threat of al- Qaeda. Caspian Sea is an alternative of Persian Gulf for the United States. Many companies of United States as, Mobil have invested money in Caspian Sea region to develop oil and gas industry. These all companies need security from terrorist attack and threat. In February 2005, al-Qaeda affiliated web site map of future al-Qaeda operation are wells and pipelines that will scare foreign companies from working there and stealing Muslims teasers. Terrorist would make it a priority to attack at Middle East oil facilities (Chenoy, Dr. Anuradha M; 2005; 8).<sup>20</sup>

The possibility of energy terrorism attacks on the world’s energy infrastructure. Economic implications of such attacks are potentially enormous. Many believe that the reason we are looking at oil at \$60 Q barrel is the fact that we have a “terror premium “factored into price of a barrel of oil. According house to Edward R. Royce (Chairman of House Subcommittee on International Terrorism and Nonproliferation, United States)<sup>21</sup> – *“Because of United States energy demands and the global nature of energy markets, terrorists can strike at us almost anywhere in the world. Oil markets are tight with little spare capacity, and demand is increasing. As we will hear today, there is strong evidence that a relatively small disruption to oil productions thought the world could spike world energy prices, severely harming the American economy. We have taken steps to improve the security of the energy infrastructures of this country since 9/11. But, unfortunately terrorist attacks abroad could hurt us as if they were committed here at home.”*

To counter terrorism and keep safe of Caspian Region, United States has basic three agendas- expulsion of Iran, Friendships with Russia, and give security assistance to newly independent states of Caspian region.

Bush administration has extended the sanction of Iran. This sanction was imposed by Clinton administrations. Bush administration claimed that Iran has weapons of mass destruction-WMD, Nuclear Proliferation and supporting terrorist organization

such as al- Qaeda. Although, Iran has supported the removal of the Taliban and Saddam Hussein regime. Tehran also recognized and supported the Iraqi governing council-established after the fall of Saddam and has maintained excellent relations with all post-Saddam governments.

On the issue of nuclear program of Iran, Bush administrations officials argue that Iran's nuclear program must have a cover for bomb-making. Vice president Cheney recently said- They are already sitting on an awful lot of oil and gas. Nobody can figure why they need nuclear as well as to generate energy. According to a recently released study by the National Academy of Science- "Iran's energy demand growth has exceeded its supply growth," and therefore, "Iran's oil export will decline," or even could go to zero within 12-19 years. The study acknowledges that Iran's need for nuclear power is genuine because Iran relies on proceeds from oil exports for most revenues and could become politically vulnerable if export decline. Nuclear reactors will substitute for the power now generated by petroleum, thus, freeing petroleum for export Iran's current plan to produce 20,000 megawatt of nuclear electricity by 2020 may save Iran 190 million barrels of crude oil every year or nearly \$14 billion annually.

The peaceful nuclear program of Iran was started in 1957, with the signing of cooperation agreements with the United States. In 1967, an American company-AMF helped to set up the Tehran Nuclear Research Center, operating a five megawatt research reactor. Iran's pursuit of nuclear energy gained more momentum following a study in 1973 carried out by the United States based Stanford Research Institute, which predicated Iran's need for nuclear energy and recommended the building of nuclear plants capable of generating 20,000 megawatts of electricity before 1994. According to this plan, it was mentioned that construct up to twenty nuclear power stations across the country. Numerous contracts were signed with various western companies to build nuclear power plants and trained Iranian scientists as western companies competed with one another in bids on Iran's nuclear projects. According to Nations Security Decision Memorandum 292, dated 22 April 1975 the United States President decided to permit United States material to be fabricated into fuel in Iran for its own reactors and for pass through to third countries with whom, we have agreements. In 1978, United States State Department memorandum summarized – "We have been encouraged by Iran's effort to broaden its

non oil energy base. We are hopeful that the United States- Iran Nuclear Energy Agreement will be finalized soon and that American companies will be able to play a role in Iran's nuclear energy program"(Zarif, Mohammad Javad;2007;73).<sup>22</sup> The Shah of Iran had become the poster boy for the United States nuclear industry. But, this enthusiasm took reverse turn after Islamic revolution. United States started questioning- "Iran's need for nuclear energy and its intentions. Former United States Secretary of State Kissinger wrote in the Washington post in 2005 that "for a major oil producer such as Iran, nuclear energy is a wasteful use of resource. Thirty years ago, when Henry Kissinger was secretary of the states for President Gerald, he held that "introduction of nuclear power will both provide for the growing needs of Iran's economy and free remaining oil reserves for export or conversion to petrochemicals." Following the revolution, the United States halted the supply of fuel for the United States built research reactor. French and German contractors those were engaged in building the nuclear power plants, withdrew form Iran in March 1979. West German government announced that it would not issue export licenses required to complete the 85 percent finished Bushehr reactor. United States also gave pressure to Russia to abandon the construction of Bushehr facility. State Department Spokesman Richard Boucher pointed out on 31 January 2003- "We have consistently urged Russia to cease all such cooperation with Iran, including its assistance to the light water reactor at Bushehr. In 2004, United States objected Iran on the issue of enrichment activity (Zarif, Mohammand Javed; 2007).<sup>23</sup>

Bush administrations said- "al-Qaeda" and Iran seek control of the same territory, what Iran envisions as its Shiite crescent is a large part of what would be the Sunni caliphate that al-Qaeda seeks to create "from Spain to Indonesia." Both Iran and al-Qaeda seek control not only to dominate Israel but also destroy it, and control the Palestinians. The main difference between these two enemies is that al-Qaeda is a movement that must be destroyed, whereas Iran is a nation that just has to be contained. Iran's Revolutionary Guards declared as a "supporter of terrorism and proliferate of weapons of mass destruction." The Bush administration has properly said that it will not take the military options for dealing Iran off the table. President Bush included Iran, in the "axis of evil" and extended the economy Sanction of Iran (Huckabee, Michael B; 2008 ;158).<sup>24</sup>

United States also wants to expulsion of Iran from Caspian region. John Wolf, a Special adviser to the United States President and Secretary of state for Caspian Basin Energy diplomacy Said- “Much has been said about the shifting tide of United States policy towards Iran the country has not changed its policy on energy cooperation with Iran and remain opposed to it because there are still serious issues that divide the United States and Iran and we need real responses to these issues. We will still provide support for all pipelines of an east-west strategy because we share the view of the region’s governments that east-west pipeline strengthen the new states of Caspian, ensuring their energy security and ours (Townsend, David; 2000;18).<sup>25</sup>

To secure Caspian Sea region, United States has introduced Partnership for Peace Program of NATO. For the security of Caspian Sea, the first attempt was made for a concept for the fiscal year 2004-09. In June 2001, Security assistance budget was submitted. This security budget includes a multi-year request to develop a Caspian Region Rapid reaction capability and a Maritime Training Center. Based on discussion with the Coast Guard International Training Department, the United States also began planning for coast guard survey to review the overall maritime security situation. Caspian Guard was launched in the fall of 2003. It will include a radar-equipment command center in Baku (Azerbaijan). The Wall Street Journal on 11 April, 2005 reported that the United States planned to spend \$100 million on Caspian Guard to respond to crisis situation in the Caspian Sea region. United States has given the former United States Coast Guard Cutter Point Brower to Azerbaijan on 20 September,2003.(Internet Source).<sup>26</sup>

In March 2002, United States and Azerbaijan signed an agreement under which fields of cooperation are peacekeeping, coastal security and upgrading and management of Azerbaijan airfields to NATO standards. United States Deputy Assistant secretary of Defense for Eurasia policy, Mira Ricardel said in a press conference after the signing ceremony that “the objective of this security co-operation is to counter threats such as terrorism , to promote peace and stability in the Caucasus and to develop trade and transport corridors (Katik, Mevlut;2004;302).<sup>27</sup>

## **Democracy**

The policy of “Democracy Promotion” has been enjoyed prominence in United States with Central Asia since 1991, when Secretary of State, Baker (Yazdani, Enayatollah; 2007; 142)<sup>28</sup> outlined his “five principles” for peaceful and orderly disintegration of the Soviet Union-

- (a) Peaceful self determination consistent with democratic values and principles,
- (b) Respect for existing borders with any changes occurring peaceful and consensually,
- (c) Respect for democracy and rule of law, especially elections and referenda,
- (d) Human rights,
- (e) Respect for the international law and obligation. Washington encouraged pluralism, freedom and democracy in strategically important states, as much as was feasible without destabilizing the region.

Barker said- “We believe it is important that reform towards democracy and free market take place and it is also important the United States makes it clear that it support the territorial integrity of these countries that independence of these states (Yazdani, Enayatollah; 2007; 142).<sup>29</sup> In the reference of democracy, United States President Bill Clinton introduced FREEDOM Support Act-Freedom for Russia and Emerging Eurasian democracies and Open Market in October, 1992. In addition to FSA, the Central Asian- American Enterprise Fund- CAAEF was incorporated in August, 1994. Its function was to provide budget for policies and practices conducive to promoting development of the Central Asian private sector. Both organizations were directed by the United States Development.

United States President Bill Clinton also formulated a new policy. This policy was “Enlargement of free market democracies” to replace containment of soviet communism as the centerpiece of United States foreign policy. Washington declared its objectives in the former soviet republics to include promotion of human rights and democracy, fostering of which in the Newly Independent State was claimed by some to be a top priority. United States wants liberal economy to explore the marketing

opportunity of Central Asia and Caucasus region. Basic aim is the development energy market. First Lady, Hilary Rodham Clinton, Energy Secretary Fredrico Pena and Vice President Albert Gore now claim that- “proper use of Kazakh energy resources can promote not only stability, but even democracy, an outcome not only stability, but even democracy” (Blank, Stephan; 1999;156).<sup>30</sup> Post 9/11 incident, United States has become more serious to counterattack terrorism. Analysts have argued that United States has forgotten the democracy and human right. Only it is supporting such type of government that are supporting United States on the issue of terrorism. No matter how much you are crushing or supporting human right and democracy. United States official have claimed to be working to reinforce democracy in Central Asia. But, some have spoken out against human rights violations and perversions of the democratic process. Elizabeth Jones has said that the numerous United States initiatives to promote democracy, human right and economic reform are “as important as the assistance the render in ensuring security and combating the real reasons behind terrorism.”(Yazdani, Enayatollah;2007;140).<sup>31</sup> In the aftermath of 11 September 2001, evidence has accumulated that the region’s leaders exploited the threat from Islamic extremism and Washington’s need for support in the war on terrorism to suppress opposition and strengthen their grip on power. Regional analysts have argued that Karimov has vowed to continue his campaign against the Islamic organization the Islamic Hizb ut-Tarir until it has been entirely wiped out. Due to terrorism, democratic reforms and human rights, once described by Washington as its priority in Central Asia, have been overlooked. However, Assistant Secretary of State for Democracy, Human Rights and Labour, Lorne W. Carner, has claimed that these issue have now come to the fore- “Because of September 11 focus on democracy and human rights in Central Asia is much more intense. Central Asia was put to the centre of our thinking; certainly in the security (and Strategic) sense, but also because we are not a country which is concerned only with leaders. It has put the issue of democracy and human rights at the centre of our thinking.”<sup>32</sup> United States President George W. Bush said- “The more people with the United States, the more likely it is that they will work to improve the human condition.” Craner called- The ‘war on terror’ a fight for democracy’ a definition that can hardly be accepted. This argument is derived from Bush’s repeated claim that the terrorist attacked the United States on 11 September 2001 because of their

hatred for its democracy, freedom and way of life. As George W. Bush insisted, the attacks were made because “they hate our freedom;” not because of United States support for corrupt dictatorship in the Arab World and elsewhere.<sup>33</sup> To promote democracy and counter to spread terrorism, United States see Kazakhstan is a key in this region.

## China

China has basic two policies regarding Central and Caucasus region- energy supply and regional stability.

### Energy Supply

China is energy thrust country. Day by day, the demand of energy is increasing. In 1971, China’s share in the world’s primary energy demand was a mere 5 percent (with 23% of the world population). By 2020, the International Energy Agency estimates that China’s share of global primary energy demand will be 16 percent, while its share of global population will have shrunk to 19 percent. In 2002 alone China’s energy demand grew up by nearly one-fifth (Ziegler, Charles E; 2006; 231).<sup>34</sup> China also wants to reduce air pollution. To combat this problem, China’s energy strategy calls for decreasing the share of coal in the energy balance from 77.9 percent in 1995 to around 62 percent by 2015.<sup>35</sup> Presently, China import oil and gas by tankers, via the Strait of Hormuz and the Strait of Malacca. 50% of China’s oil imports come from the Persian Gulf states. China wants to diversify this resource and an alternative of Persian Gulf

### China’s production- consumption and import of crude oil (million tons)

**Table- 1**

Year	Productions	Consumption	Import	Export	Self Sufficiency Ratio(%)
1980	106.0	87.6	0.4	13.3	113.9
1985	124.9	91.7	0.7	31.2	132.3
1990	138.3	114.9	2.8	24.9	119.0
1995	149.0	160.7	17.1	18.8	101.2
2000	162.6	230.1	70.3	10.3	73.0
2001	164.8	232.2	60.3	7.6	75.8
2002	168.9	245.7	69.4	7.2	73.1
2003	169.3	252	91.0	8.1	67.1
2004	175.5	292.7	122.7	5.5	60.0

Sources- China Statistical Year Book 2003<sup>36</sup>

2004	175.5	292.7	122.7	5.5	60.0
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**Sources-** China Statistical Year Book 2003<sup>36</sup>

This table clearly shows, day by day, production of oil of China is increasing, but consumption is also increasing at large scale. Ratio of production and consumption of oil is not favorable. Today, China is the world's second largest oil consumer, accounting for one third of the increase in 2003. In present coal is important source of energy for China. Its coal reserve amount to around 12.5% of the world's total proved reserved. Coal has 70% share in China's energy like, production of electricity. China has low quality of coal. It is dangerous to mine, highly sulfuric and very pollutant. It is also not eco-friendly. China wants to use eco friendly energy resources like crude oil and natural gas. Import of oil is the top agenda of China's policy in coming days. Because the country's proved reserves are estimated at less than 20 billion bbl, which at current production rates would be sufficient for less than 15 years. China's major on shore oil fields, exploited since the 1950s are mature and over-drilled. With domestic production more or less stagnating, there is a widening consumption gap that needs to be filled with sharply rising imports (Cornelius, Peter and Story. Jonathan;2007;08).<sup>37</sup>

China imports oil from various sources – Middle East, Africa (Sudan), CIS (Russia, Kazakhstan) etc. Middle East has large share in the oil import of China. China is also looking towards Caspian region, but not at the cost of Middle East region. Middle East is the first priority of China. Basically, China is the following the post 1973 energy strategy of Japan. Japan gave priority to energy security through long-term equity investments in oil producing countries. China has adopted a purposefully ambiguous Japanese style foreign policy designed to signal a certain distancing from the United States, notably with regard to the Middle East.<sup>38</sup>

**China's Regional sources of imported crude oil, 1995 – 2003 (%)**  
Table- 2



Sources- Yearbook of China's Economic Foreign Relations and, Trade 2002<sup>36</sup>

Region	1995	2000	2003
Middle East	45.4	53.6	51.3
Africa	10.8	24.0	24.4
Asia- Pacific	42.3	15.1	15.3
CIS(Russia-Kazakhstan)	0.2	3.1	7.2
Europe	2.1	3.6	1.8
South America	0	0	0.4

China's inclination is towards Kazakhstan for oil and for gas towards Turkmenistan. Kazakhstan has the greatest potential for supplying oil to China. Energy Cooperation between the two countries was officially launched in 1997, when Vice Premier Li Lanqing signed an agreement on Energy Cooperation on his revisit of Kazakhstan (Lai, Hongyi Harry: 2007, 527).<sup>38</sup> In 1997, China proposed to invest \$9.5 billion to update the Uzen oilfield in Kazakhstan and construct a 3,200 km pipeline from the western province of Aktobe into western China. In December 2002, during Kazakhstan President Nazarbaev visiting Beijing the Chinese proposed reviving the project. Kazakh Energy Minister Vladimir Shkolnix said that construction of a pipeline system that could eventually supply China with up to 1 mbpd of crude was continuing. In May 2004, the Kazakh and Chinese government signed a \$700 million agreement to construct an oil pipeline from Atasu in Central Kazakhstan to Xinjiang, with a proposed capacity of 200,000 bpd. Kazakhstan's approach is to divide the 3,000 km route into sections, with the 1,240 km Atasu stretch capable of being linked to the western oil (the Kenkiyak = Atyarau pipeline) at some point in the future. This stage, which is being carried out jointly by Kaz Munai Gaz and CNPC will cost only US\$ 700-850 millions (Ziegler, Charles E.; 2006; 233).<sup>39</sup> 76.3 percent of export of Kazakhstan to China is metals and crude oil accounted is only 16 percent. China wants the increase the share of

oil. China brought entire North Buzacni oil and gas field of Kazakhstan from Chevron Texaco and acquiring 63 percent of Aktobe field.

There are three important deals between China and Kazakhstan. One is an agreement by the two governments in 1997 to invest \$2.5-3 billion in building a 3088 km pipeline from Atyran in Western Kazakhstan to Dushangzhi in Xinjiang. The section from Qandyaghash to Atasu was completed in March 2003 construction of the section of the pipeline from Atasu in Kazakhstan to Alashankou in China started in September 2004. The other is the CNPC- China National Petroleum Corporation acquisition of a 60% stake in the Kazakh oil company Aktobemunaigaz in 1997 and its pledge to invest a large sum in the latter over 20 years. The third is the take over of Petrokazakhstan by the CNPC in August 2005 at a price of \$4.18 billion.

China also invested money in Azerbaijan. In March, 2002 CNPC purchased a share in Azerbaijan's Kursangi and Karabagli oilfields from the EBRD for \$52 million, and an additional 20 per cent share from Delta Hess giving CNPC a 50 percent share in the Salyan oil operating company. These fields are estimated to have reserves of 0.75-1.1 billion barrels. SOCAR (the State Oil Company of Azerbaijan) owns the remaining 50 percent. China plans to invest some \$80 million to rehabilitate these old onshore oil deposits, drilling new wells and expanding existing ones. Early in 2003 CNPC announced it would acquire a substantial share in Azerbaijan's onshore project Canub-Qarb Qobustan.<sup>40</sup>

Natural gas has low representation in China's energy. It has only 2.5 percent share of primary energy consumption. But it has rapidly grown over the last ten years, with annual growth rates averaging nearly 10 percent. The production of China's own limited natural gas reserves is concentrated in Sichuan, with the "develop the west" project announced in 2000, planned to link Xinjiang to Shanghai. China's indigenous gas reserves being limited, promoting the use of natural gas. China will have to import natural gas. Natural gas is eco-friendly energy resources. China's five year plan goal is adopted EU clean-air standards. For natural gas, China is also looking towards Caspian region, in particular Turkmenistan. According to 2006 Statistics, the Caspian region as a whole is estimated to possess about 7.3 trillion cubic meters (tcm) of natural gas with another possible 8.3 tcm, a far cry from Middle East reserves (Saudi Arabia alone is

estimated to possess 7 tcm) but enough to represent a sizeable contribution to global supplies (Lonteigne, March; 2007;149).<sup>41</sup>

Turkmenistan is one of the large reserved of natural gas in world. Energy export is main source of revenue of Turkmenistan's economy. As of 2005, energy exports comprised an overwhelming 79 percent of the country's total export.<sup>42</sup> Turkmenistan's current estimated natural gas reserves, according to estimates by British Petroleum Stand at 2.9 trillion cubic metres, according to 2005 figures. Considering the size of the population of China, and its continuing economic growth and accompanying need for energy, domestic gas supplies will become insufficient to address the demand. Reports have suggested that the Beijing will need to import between 28 and 100 billion cubic meters annually by 2020 or face shortage which underscores Beijing's wish to increase imports of gas and liquefied natural gas.

In April 2006, an ambitious agreement was struck between President Niyazov and Chinese leader Hu Jintao to allow for the construction of a gas pipeline between Turkmenistan and China. Under the terms of the deal, Beijing would purchase 30 billion cubic metres of gas from Turkmenistan annually, over three decades. In addition, the China National Petroleum Corporation-CNPC would participate in the development of a gas field near Turkmenistan's Amu Darya River. Other joint development deals in November 2006, gas drilling contract offered to CNPC to develop wells in Turkmenistan's southern Iolatan region. In May 2007, an agreement that is allowing CNPC to explore gas sites in Turkmenistan's Gurnorta Eloten expanse.

### **Regional Stability**

China is more conscious about instability of Xinjiang province. In Xinjiang province uyghur reside, and are minority in this region. Uyghur also reside in Kazakhstan and Kyrgyzstan. Uyghur are Turkic speaking people. China is fear about the dream of East Turkistan, included the area of Chinese Xinjiang province, Kazakhstan and Kyrgyzstan. Xinjiang province contains three major oil basins- the Turpan, Junger, and Tarim, with up to 150 billion barrels of reserves. (Kumar, Rama Sampatha; 2006;118).<sup>43</sup> Since the 1990s, the uyghurs in the Xinjiang province with a population of seven million have been conducting a violent struggle for independence. They have been killed police

and soliders, planted bombs and robbed banks. In 1997, Uyghurs militants explored a bomb in Beijing wounding 30 people. They have also developed radical Islamic movements and had training in religious school and camps in Afghanistan and Pakistan. Chinese government equates three evil forces- terrorist violence, ethnic separatism, and religious extremism. Chinese analysts suggest that the forces represent threat to the economic development, national integrity and social stability in China (Kerr, David with Laura C. Swinton; 2008; 118).<sup>44</sup>

Chinese Government estimated that in the period 1991- 2001, more than two thousand terrorist acts in the region, leading to 162 deaths and more than 400 injured. These attacks included assassinations of local cadres and assaults on military and economic targets. In April 1996, Kazakh and Kyrgyz government official gave renewed support to Chinese policy in Xinjiang, providing further impetus for Beijing to step up the level of cooperation. Soon after, China, Russia, Kazakhstan, Kyrgyzstan, and Tajikistan signed the Mutual Military Confidence Building Measures- MMCBM. A prelude to the Shanghai- 5 summit, this agreement provided for a more relaxed military posture along the borders of these states, meant to help resolve pending border disagreement. In response to Central Asian support for Chinese policy in Xinjiang and a relaxed traditional military threat from these states, China increased its police security along its border and focused on clamping down on unregistered human movement in and out of Xinjiang. Further, Shanghai cooperation Organization- SCO was officially declared in June 2001 just before 9/11 attack. The attack of 9/11 and the resulting United States war in Afghanistan provided ample opportunity for the SCO to exert its influence in matter of regional stability and counterterrorism. After 9/11, the six foreign ministers of the SCO issued a joint statement, asserting that SCO is “to set the preservation of regional security and stability and the crack down on the three forces of terrorism, separatism, and extremism as the cooperation focus of its member states (Sheives, Kevin; 2006; 213).<sup>45</sup>

In December 2003, China public Security Bureau issued the names of four East Turkestan separatist organization and eleven key figures. These organization were the Eastern Turkistan Islamic Movement- ETIM, the Eastern Turkistan Liberation Organization- ETLO, the World Uyghur Youth Congress- WUYC, and the Eastern

Turkistan Information Centre- ETIC. China has argued that ETIM and ETLO in particular have links with al-Qaeda and the Taliban. From August 4-6, 2003, the SCO conducted its first multilateral joint military exercise termed "Cooperation 2003" emphasizing counterterrorism measures. In June 2004, the SCO opened a counterterrorism centre- The Regional anti-terrorist structure (RATS) in Tashkent, furthering the organization's focus on counterterrorism. At the 2006 RATS council Meeting SCO member adopted a list of fourteen proscribed organizations and of four hundred individuals, who if captured on SCO territory were to be returned to their home country for legal processing. The meeting asserted that the "struggle with terrorism" should be not an internal affair of each country, but a platform of international cooperation. China has consistently used the vehicle of the SCO to pursue its regional stability interest in Central Asia. Stability in Central Asia will increase the healthy environment to explore the hydrocarbon resources of Caspian Sea. China also interested in Sino- Kazakh pipeline. This pipeline will start from western Kazakhstan and connect with Xinjiang province of China. This project was considered in June 1997, but begun in September 28, 2004. This pipeline has been opened in December 2005 (Luzyanin, Sergey; 2007; 240).<sup>46</sup> This pipe line will connect with a recently completed pipeline beginning in Xinjiang and then join with an extensive refined oil pipeline network, transporting the energy through eastern and south eastern China.

### **European Union**

European Union has basic aim towards import of oil and gas from of Caspian Sea states. European Union stated to think about energy security since 1970s oil crisis. They thought that energy (oil, natural) willfully used as a weapon. European Union formulated energy supply policy, and it was focused on- (a) maximizing indigenous production, for example, in north sea, (b) more efficient use of energy, (c) regime to deal with supply disruption, the IEP within the IEA framework, (d) diversification in the fuel mix, for example, nuclear power stations instead of oil fired power plants, (e) diversification of suppliers, for example, more oil from Norway, the Soviet Union, and other non- OPEC, non- Middle East producers, (f) incorporating energy in foreign and security policy, for

example, by building good and strong relations with producer countries (Hoogeveen, Femke and Perlot, Wilbur; 2007; 447).<sup>47</sup> The policy to become less dependent on OPEC production, especially Middle East OPEC production, and develop more indigenous sources was successful. By 2004, the dependence on producing countries around the Persian Gulf and OPEC members in general has been reduced. The former countries of the Soviet Union and Norway are now first and second supplies, respectively. The increase in imports coming from the Soviet Union was made possible by the end of cold war in 1989 and come largely from Russia. Imports from the Caspian Sea to the European Union go mostly from Russia.

**Top- 10 crude oil supply origins of EU-19 in 1978 (in MMbbl/d) <sup>48</sup>**

**Table- 3**

Region	Crude Oil	Percentage
Saudi Arabia	305	22.1
Iran	170	12.3
Iraq	139	10.1
Unspecified Others <sup>1</sup>	121	8.7
United Kingdom <sup>2</sup>	107	7.7
Libya	084	6.1
Kuwait	078	5.6
Nigeria	076	5.5
UAE	075	5.4
Soviet Union <sup>3</sup>	063	4.6
Sub Total	1218	88.1
Total Supplies	1383	100

- 1- The category unspecified other is mostly Eastern European Countries for which no data is available in 1978. These supplies came mostly from the Soviet Union, which should therefore be higher in the top 10.
- 2- The number for the United Kingdom is the total domestic production as no detailed export data is available for 1978. The main share was consumed in countries which later from the EU- 19, but significant amounts were exported to non- EU destination such as the US and Canada as well as.
- 3- Soviet Union figure include Russia, Kazakhstan, Turkmenistan, Uzbekistan, and Azerbaijan.

Sources: IEA 2004 Oil Information, OECD/IEA.

**Top- 10 Crude Oil supply origins of EU- 19 in 2004 (in MMbbl/d) <sup>48</sup>**

**Table- 4**

Region	Crude Oil	Percentage
Former Soviet Union <sup>2</sup>	388	30.0
Norway	209	16.2
Saudi Arabia	133	10.3
United Kingdom <sup>1</sup>	128	9.9
Libya	100	7.7
Iran	072	5.6
Algeria	038	2.9
Denmark <sup>1</sup>	037	2.9
Nigeria	030	2.3
Iraq	025	0.9
Sub Total	1159	89.6
Total Supply	1294	100

1- Not counting export to non- EU countries.

2- Former Soviet Union includes Russia, Kazakhstan, Turkmenistan, Uzbekistan, and Azerbaijan.

**Sources:** IEA 2004 Oil Information. OECD/IEA.

Day by day, the need of oil and natural gas of European Union is increasing. EU will import 65 percent of the energy it uses in 2030, up from 52 percent in 2007. Over the same period, oil import dependence is projected to rise to 93 from 82 percent; for natural gas, the figure will rise to 84 from 57%. Today, oil accounts for about 38 percents of the EU's total primary energy supply and gas about 25 percent (Wood, Steve: 2008; 133).<sup>49</sup> In 2004, the EU obtained only about 18 percent of its oil and 37 percent of its gas from internal sources. According to British Petroleum's 2007 statistical Review of world Energy Europe (in which the EU, Switzerland, Norway, Iceland, the Balkans and Turkey are included) in 2006 imported almost 13.5 million barrels of oil per day (bpd), an increase of 1.5 percent over the previous year of that almost 5.9 million bpd, or about 44 percent of total European oil import, came from states associated with former Soviet Union- Chiefly-Russia, Kazakhstan, Turkmenistan and Azerbaijan. Nearly 24 percent was imported from the Middle East and 14 percent from North Africa. For EU, Caspian region is main market for oil. Russia (29 percent), Norway (17 percent), Algeria (13 percent) are main exporter of natural gas for the European Union. In coming days, in EU, natural gas's share will increase and oil's share will decrease. For this EU is thinking Caspian Sea is good option. It is more cautious about this region.

There is no direct link between the EU's energy interest and its military and security involvement in Caspian Sea, as China has. This is the prerogative of individual member state (Hoogeveen, Femke and Perlot, Wilbur; 2007; 486).<sup>50</sup> Kazakhstan has signed MOU- memorandum of understanding on cooperation in the field of energy with EU in December 2006. The EU, get a significant part of the energy it consume from Russia, while EU Europe is the most lucrative market for Russian energy export. Thus, Russian energy contributors substantially to EU energy security, which forms the basis of every modern economy, while Russian earns the hard currency which to a great degree explains its economic



boost and early repayment of its international debt in the past years. With 80% of Russian oil export and 60% of natural gas exports going to the EU markets. Russia sends more than half of its oil and natural gas exports to the EU. The EU is thus by far the most important energy partner for Moscow. Former German Chancellor Gerhard Schroeder summed up the convergence of the interests of Russia and the EU- “We need energy, Russia needs money. We have money, Russia has energy. It’s clear that our interests are coming closer together. The European Commission, for its part, has reached the conclusion that energy “is the area of the greatest conjunction of economic and strategic interests of both side (Proedrou, Filippou; 2007; 335).<sup>51</sup> Now, EU want decrease the influence the Russia in EU market. According to Noe van Hulst- “the main risk is not so much that Europe will find itself in a situation with having no gas, but much more that a dependency on a powerful monopolistic supplier would put upward pressure on price.”<sup>52</sup> In the Green papers of the European Commission published in 2001 and 2006 it has identified a balanced energy mix with diversified sources and routes as a top priority for the EU. The EU has given strong support to the US policy of multiple sources and routes, as BTC pipeline. In addition this EU also promoted the scheme of construction of the Pan European oil pipeline. It will start from thr Romanian port of Constanza, which can be supplied with both Russian and non Russian oil pass through Serbia and Slovenia and end up in the Croatian port of Omisalj in the Adriatic Sea; from there another branch will be built delivering oil to Trieste, Italy. The pipeline will have an annual transit capacity of 40 million tones, which can reach up to 80 million tones. The EU has endorsed the gas pipeline that will connect Turkey and Italy via Greece. It is expected to be operational in 2011 with a transit capacity of approximately 11 billion cubic meters per year. There is also Nabucco project, which link Turkey with Austria. The pipeline will cross Bulgeria, Romania and Hungary and carry around 30 billion cubic meters annually. The pipeline would transport gas from Azerbaijan, Iraq, Egypt, Libya and Iran to the EU market.

For newly independent states of Caspian Sea states, EU wants to provide help under the framework of ECT and European Neighborhood policy. ECT- Energy Charter Treaty, address was opened for signature in December 1994. Azerbaijan,

Kazakhstan and Turkmenistan are the signatories member of ECT. The ECT ensure that- (a) energy and energy products can transit through third countries. (b) Countries must take the measures necessary to facilities such transit. (c) Countries must not interrupt the flow of energy in the event of any dispute over terms and conditions of transit. Russia has not accepted this treaty. In the G-8 summit in St. Petersburg in 2006, which had questions of energy cooperation as an explicit focus, Russia's President Vladimir Putin flatly rejected the Energy Charter Treaty's attempts to open Russia's domestic energy market to competition, broaden access to the country's energy transit infrastructure, and assure nondiscriminatory treatment for non-Russian firms (Cutler, Robert M).<sup>53</sup> Kazakhstan signed MOU on cooperation in the field of energy in December 2006. EU had banned direct purchase of gas from Turkmenistan in 2006 on the basis of human right (Wood, Steve; 2008; 133).<sup>54</sup> However, this stand may be criticized. EU's major suppliers excluding Norway range form 4(PR) 7(CRL) for Libya. Russia, the leading source of EU oil and gas has ratings of 6(PR) and 5(CRL), with an overall status of not free.

**Political Rights and civil liberties and the sources of EU oil and gas**  
**Table- 5**

State	Political right rating PR	Civil right rating CRL	Overall status	Percentage EU oil supplies(2004)	Percentage EU gas supplies(2004)
Algeria	6	5	Not free	3	13
Azerbaijan	6	5	Not free	1	
EU			Free	18	37
Iran	6	6	Not free	6	
Iraq	6	6	Not free	2	
Kazakhstan	6	5	Not free	3	
Libya	7	7	Not free	8	
Nigeria	4	4	Not free	3	1
Norway	1	1	Free	13	17
Qatar	6	5	Not free		1
Russia	6	5	Not free	26	29
Saudi Arabia	7	6	Not free	9	
Turkmenistan	7	7	Not free		1
Uzbekistan	7	7	Not free		1

**Source- *Current History*, March 2008; page no-134**

European Neighbourhood Policy- To improve relations, with energy supplies states, European Union came up with the European neighborhood policy (ENP) in 2003. The European neighborhood policy defined by the European Commission in 2003 encompasses the Mediterranean shores of Africa as well as former communist states in Eastern Europe and Caucasus. The ENP offered financial oil and trade benefits to nations in these regions beyond the EU's frontier in exchange for commitments to make political and economic reforms. (Page no-135).<sup>48</sup> The European Neighbourhood Policy which also include Euromed countries since 2004, has an agreement with Azerbaijan. The EU- Central Asia Partnership and Cooperation Agreement involve also Kazakhstan, Turkmenistan, and Uzbekistan (Hoogeveen, Femke and Perlot, Wilbur; 2007; 489).<sup>55</sup>

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## Conclusion

Energy is the lifeline of state. It is the engine of growth. Comparatively, energy insecurity does not harmful as weapon of mass destruction, chemical weapons, nuclear arsenal, etc. But it has enormous impact on economy. Energy security accelerate economy growth of state. Due to its vital importance, it is non-traditional aspect of security, although, has been closely linked traditional aspect of security (military). Energy was one of the cause of world war I and world war II. Energy security is the top priority of the foreign policy of state. Energy security means continuous supply of energy resources at affordable coast. Energy resources are not like other commodities of trade. It has strategic importance and different to other commodity. Energy has various sources, but a particular source of energy has vital role in particular period, such as coal had vital role in industrial revolution. In present time, Energy and environment are crucial issue of international politics. The environmentally and socially disruptive consequences of the accumulating carbon dioxide, other pollutants and the depletion of the ozone layer have caused widespread climatic and physical damage to our life support system. Economic and environmental conditions require us to seek global, long term energy security. State wants eco-friendly energy. In present time crude oil as natural gas have vital role in energy market. Scientists are in the process to find an alternative of crude oil and gas, but could not got success till now. The replacement of one source of energy by another is not just an isolated event, it implies change in an entire way of life, production techniques, social organization, in fact the total transformation of the society. The demand of energy is increasing day by day. It is estimated that total world- wide energy requirement in the year 1989 was about 325 EJ and this expected to increase to between 1100 EJ to 1400 EJ by the year 2030.

In present scenario, oil and gas has major share in global energy and will maintain in coming days. Comparatively, other sources of fossil energy, it released less carbon dioxide in environment. There is crucial problem that reserves of oil and gas is not horizontal on earth, concentrated in particular region, such as the Persian Gulf, the Gulf of Mexico, the North Sea, etc. These regions have become the sphere of influence among of international actors. The Persian Gulf is regarded as epic centre of global energy market, due to reserves of oil and gas. After formation of OPEC, oil



producing countries has projected themselves at the arena of world energy politics in superior position. OPEC has supreme position to fix and hike the price of oil and gas. OPEC uses oil as political weapon during critical situation, such as 1970s Gulf crisis.

Caspian Sea is a part of Central Asia and Caucasus region. This region has been regarded as vital role in international politics in the reference of its location. Geopolitical thinkers have claimed to control over this region, if state wants to be a major power in international politics. As, Rim land and Heartland concept of Geopolitics have described this region as key to control over Eurasia. After discovery of crude oil and gas in Caspian Sea and bright future of these resources, again, Caspian Sea has become a top priority of major powers. The reserves of oil and gas in the Caspian Sea are yet to be find. There is optimistic statement about reserves of oil and gas in the Caspian Sea. It consider as future alternative of the Persian Gulf. Energy thrust country wants an alternative of the Persian Gulf and strong competitor of OPEC. Caspian states are not the member of the OPEC, exclude Iran. Energy thrust country thinks that price of oil and gas that are proposed by OPEC cartel, will not applicable to Caspian Sea. Because, the hike price of oil and gas has potential to destabilize the economy of state. In other way, Caspian Sea can put before OPEC cartel as competitor in energy market. The Caspian Sea states particularly Azerbaijan, Kazakhstan and Turkmenistan; their economy is based on export of oil and gas. These states do not have sufficient technology and capital to explore reserves. To do this project oil companies of thrust states –Japan, china, United States, European countries to have invested enormous amount to explore the reserves of Caspian Sea. There is interdependent relation between the Caspian Sea states and energy thrust states. In present period, Caspian sea has become sphere of influence among major powers world. Everyone wants to get bigger piece of the Caspian energy cake.

Before disintegration of the USSR, there was no conflict between USSR and Iran, on the issue of legal status of the Caspian Sea and division of Caspian sea. After the disintegration of the USSR, there are five littoral states of the Caspian Sea- Azerbaijan, Kazakhstan, Turkmenistan, Russia and Iran. Still now, there is consensus among them, on the issue of – how should Caspian sea be divided? If we go through, - what all issue of cooperation and conflict among them, and how are they cooperating each other?, we will get, Caspian Sea states have unanimous over environmental

protection and marine biodiversity of Caspian region, even water surface of Caspian. But there is no unanimous among Caspian states – how under water resources of the Caspian Sea will divide. What is the aim behind this conflict? If we analyze the arguments of Caspian states, will get – Caspian states want to sovereignty over hydrocarbon carbon resources, as much as they can, like Iran argued – Caspian sea should be divide equally among them, no matter how much state has coastal line. Aim behind this, Iran wants sovereignty over Alborz/Alov oil field. Azerbaijan and Kazakhstan want their sovereignty over near to their coastal area. These states are in the favour of the UNCLOS- 1982 principles. Turkmenistan also thinks like this. Russia does not support the principle of UNCLOS -1982. Russia wants to enhance its energy potential in global market. Out of OPEC, it is main exporter of global oil and gas. is great power in Caspian region. Russia wants to get title of super stating Global energy market. Without major share in Caspian Sea, Russia cannot achieve. It proposed a special Framework- MML (modified median line) to divide Caspian Sea. Iran thinks also like this. Iran has southern coastal part of the Caspian Sea that is deepest point of the Caspian Sea. It needs modern and scientific technology and capital to explore the reserves of oil and gas. It may not economic chief. Southern part is about to discovered. So, it advocates equitable share to divide the Caspian Sea and will get major share in the Caspian Sea. No one wants to lose. Everyone wants to be winner in the share of Caspian hydrocarbon. As a result, there is no consensus among Caspian littoral states how to divide Caspian Sea.

Caspian Sea is rich in hydrocarbon resources. But, it has long distance from market. Without excess of market, hydrocarbon resources cannot be fruitful. The physiographic of Caspian Sea is unique. Without crossing the territory of neighbouring, Caspian States cannot access global market. Caspian States need transportation facilities to access world market. Russia is main provider of transporter facilities. Situation of newly independent Caspian States is critical Azerbaijan Turkmenistan and Kazakhstan cannot utilize their potential due to lack of transportation infrastructure. Russia wants its hegemony in this region to provide transportation facility. Russia thinks it will purchase oil and gas at low rate from Caspian Bergen and sell it higher price in Global market. If newly independent states do not support the vision of Russia, can use transportation facilities as political weapon. Newly Independent States the Caspian Sea want an alternative of Russian

transportation system. Transport facility is vital issue in this region. Western countries perceive as opportunity to presence in the Caspian region. United States had proposed BTC pipeline. Although, it was costly project, but has strategic importance. Initially this project was criticized by Russia. When Russian realized that alone Russia cannot fulfill the future requirement of the Caspian basin. Russia supported this project. Russia want win- win situation in this region. Russia is also modifying and renewing its transportation facility. Russia does not want any inferior position compare to western transportation facility.

As we know, United States is the largest oil consumer in world (29% of world), and expected to maintain this position till 2030 about 1.2 billion tones or 21% of the global oil consumption. The United States meets more than half its consumption through imports. Persian Gulf is the main exporter of oil and gas for United States. There is no permanent friend and enemy in international politics. The United States is searching such type of alternative that potential would be like the Persian Gulf and not the member of OPEC. OPEC cartel is using oil and gas as political weapon in international politics. Caspian Sea is a good option to achieve this vision. After 9/11, United States is more serious about energy terror. It does not want depend on such type of source that is affected by terrorism. United States wants to secure its energy needs. For this, United States has inclined towards Caspian Sea. United States also understand, Russia is a great power in this region. With out cooperation of Russia, United States cannot implement its policy. For Russia, United States coined win-win strategy to explore the resources of Caspian Sea. Azerbaijan is a key for United States to enter Caspian region. The United States perceive that transportation facility is the best option to show strong presence in this region. To provide transportation facility of Caspian Sea resources – Turkey and Georgia are main allies for United States. Caspian Sea region is not secure from the threat of Terrorist. To keep secure from the grip of terrorist, the United States has proposed Partnership for Peace programme in the banner of NATO. United States want expulsion of Iran from Caspian region. Iran and United States had good relations before revolution in Iran. After the revolution in Iran, relation between United States and Iran took reverse direction. In present time, United States administration has claimed that Iran has weapons of Mass destruction, supporting terrorism. United States has also imposed economic sanction and included Iran in axis of evil. Iran has

comfortable rank in Global crude oil and natural gas market. If Iran take advantage from Caspian Sea resources, will improve its rank in world oil and gas market. After, Russia it will become super power. Iran has good infrastructure for transportation of oil and gas. If Caspian oil and gas export to global market via Iran, transportation coast will be cheap. But, pipelines project of western states, such as BTC will loose its importance. Western pipelines projects are costly project. Companies will get profit, if oil and gas do not export via Iran. United States understands this situation; does not want that Iran improve its rank in world market. With the help of war on Terror, and Weapons of mass destruction WMD, United States is doing two works, expulsion of Iran from Caspian basin, and try to show Iran is a terror state and its nuclear reactor and WMD are not safe for world peace. So Iran should be punished.

China is also interested in Caspian Sea. China is a energy thrust country. In 2003, it has achieved second rank after United States in world oil consumption. Day by day, energy demand of china is increasing. In present scenario, China import oil and gas from Persian Gulf. China needs another source to fulfill its demand. China has inclined towards the Caspian Sea. China has invested capital and technical assistance in Caspian region, to explore gas and oil. China is investing its resource to explore opportunity in Caspian region. China has second priority for the Caspian Sea. But, china also wants its second choice be a secure choice. Whenever, china need, second choice play a vital role for china. China is also interested to transport facility for the Caspian Sea. It has proposed eastern route pipeline from Kazakhstan to Western Chinese province Xinjiang. China has to counterattack Uyghur movement. Without help of Central Asian states, china cannot fulfill its project. Xinjiang province is affected from Uyghur movement. Xinjiang province has oil reserve and crucial location to explore opportunity in the Caspian Sea. Without stability of Xinjiang province, the Caspian policy of China cannot be implemented. China wants to project Xinjiang province as transportation hub for Caspian oil and gas. China needs cooperation of Central Asia. To fulfill all these projects, China came up with SCO. Now, China is using SCO as a platform to secure Central. Stability in Central Asia will provide the healthy environment for development and explore of Caspian oil and gas industry.

European Union became conscious about her energy security since 1970s Gulf crisis. In this crisis, OPEC used oil as political weapon. European Union diverted its energy source from Persian Gulf to Soviet Union. In Present time former Soviet Union has 30 around 30% share in the oil and gas import of European Union Russia has major share in EU energy market. European Union has inclined towards newly independent states of the Caspian Sea. European Union wants to balance Russia with the help of newly independent Caspian state. European Union has signed MOU-memorandum of understanding with Kazakhstan, Turkmenistan. EU also want promote human right and democracy in this region. Due to poor performance of Turkmenistan in human right promotion, EU had banned directly purchase gas from Turkmenistan. However, Turkmenistan's gas was supplied to EU market via Russia. If we analyse the main exporter of oil and gas for EU, get only Norway fulfill the standard of EU. Central Asia and Caucasus States are newly independent states. It will take time to improve their conditions. EU reconsidered its decision and revoked sanction.

In Summary, we can say that Caspian Sea has potential to be an alternative of the Persian Gulf. How much it has reserves hydrocarbon resources is yet to be found. But there is a certain optimist statement on this issue. In present time, the United States, China, European countries, Japan, Russia, and Iran are engaged in Caspian Sea region. Motive behind all these countries is to explore and develop of Caspian hydrocarbon resources. Russia and Iran perceive, the Caspian Sea is the preserve area only for littoral states of Caspian. Russia also said Caspian Sea is unique land-locked lake and play a dominate role in Caspian region. Former Russia President Vladimir Putin expressed like this. In present scenario, all great powers are involved in Caspian region. So this area has become vulnerable. Any conflict may lay threat for international peace and security. However, there is no such type of situation has occurred till now. But peace in Caspian region is compulsory for stability of Caspian region and international order as well as success of energy diplomacy.

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