

## **OIL AND GAS PIPELINE STRATEGY OF A LANDLOCKED COUNTRY: CASE OF AZERBAIJAN**

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### **Introduction**

Energy resources constitute the backbone of any modern industry, and its uninterrupted supply is a key concern for the states. The oil embargo imposed by the Arab countries in 1973 on the West validated this assertion as the latter parties plunged into a crisis amid severe disruptions in their socio-economic infrastructures. About twenty years later, in 1990 when Kuwait, the main energy supplier of the United States came under the danger of the permanent Iraqi occupation, the American government did not conceal the fact that one of its main motivations in going to war against Iraq was defending the vital interests of the American people – the stability of the energy supplies of the country.

Pipelines, as the most economic way of supplying oil and gas to the consumer countries, play a vital role for the land-locked countries which are deprived of using alternative ways of transporting oil – shipment through other mediums of transportation such as tankers, cargo trains etc. Therefore, figuratively, pipelines are often referred as the blood vessels of a country.

During the Cold War each camp possessed its own pipeline system. Indeed these systems of pipelines had accesses to each other, but the strategic reason behind those systems was to operate as the only reliable mean of oil and gas transportation, in case the outer world ceased supplies (WW III, for example). The pipeline system “Druzhba” (means ‘friendship’ in Russian) served to link the

industries of the Eastern Block countries together and served as an example of an above-mentioned policy. The Western Block was less in need of such a unified pipeline system, simply because most Western countries had coasts and for the most part, the oil came to them from the Middle East or elsewhere through large tankers. However, even in such a situation the security of the pipeline systems has been one of the top priorities of NATO.

With the collapse of the USSR, in addition to old-timers such as Russia and Iran, three new independent states – Azerbaijan, Kazakhstan, Turkmenistan – appeared as the coastal states around the Caspian Sea. It was not long before the oil reserves of the Caspian attracted foreign interest and the questions arose as how to transport the oil and gas from the landlocked region into the world market. While it was clear that pipelines were necessary to fulfill the operation, the essential issues such as the location and direction of routes remained up in the air. Russia's proposal to use the old "Druzhba" system certainly failed to appeal to the new independent states in the light of the ongoing struggle of the former Soviet republics to decrease their dependence from Russia. On the other hand, choosing a new pipeline route would certainly indicate the future direction of integration in the region, which immediately brings up a number of other uncomfortable questions: Which regional power will be successful in the pursuit of its own choice? What are the counter-chances of the other regional powers? What position will the global powers hold in this inevitable dispute between the regional powers over the pipeline routes? The current work is an attempt to answer those questions from the standpoint of one of the newly independent states of the Caspian region – Azerbaijan.

### **Brief History of Oil Industry in Azerbaijan**

Throughout the history Azerbaijan has shown to possess significant oil reserves, thus attracting foreign attention. During the early Middle Ages and even before, the existence of significant amount of onshore oil and gas reserves began causing permanent fires

on the ground. The unexplainable for those times phenomenon gave rise to Zoroastrianism religion (the cult of fire) in the region. When the Arab caliphate took control over the region they modified the geographical name of the region (the original name linked to Atropatena) to the word “Azerbaijan” which can be interpreted as “the guardian of fire”.

The oil wells had been operating in the areas surrounding Baku already during the early XIX century. There were approximately 120 wells and 32 cellars for storing oil around Baku in 1825. The involvement of the foreign companies in the oil projects in Baku, which started with the Nobel brothers in the early 1870s, gave a sharp rise to the oil industry of the Russian Empire in Azerbaijan. “By 1897, the Russian oil fields – just twelve square miles around Baku – delivered more than 45 % of the world’s crude oil. And a few years later, by the end of the century, Russian wells were providing more than half the total world production”.<sup>1</sup> By the beginning of the XX century, first the Rothschilds then the Royal Dutch Shell company became involved in the oil business in Baku, which by that time comprised 95-97 % of Russia’s oil supplies.

The first steel pipeline for the transportation of oil was laid in 1877, from the Balakhany oil field near Baku to the refinery in Black Town, where the oil workers lived.<sup>2</sup> It was then carried by the rail tankers from Baku to the Georgian port at the Black Sea – Batumi. In the late XIX century the Rothschilds built the second rail line from Baku to Batumi and in 1889, the Nobel brothers built a pipeline along the Baku-Batumi railway to the Black Sea port.<sup>3</sup> In 1906, the Russian government completed a 560-mile, eight-inch pipeline between Baku and Batumi, at that time the longest in the world.<sup>4</sup>

Due to the transitional period in Russia between 1914-1920 and the discovery of the new oil fields in the USA, the share of the Baku oil declined. However, already in the mid-20s the Soviet administration initiated serious efforts to revive the oil industry in Azerbaijan. Through artificial installations in the shallow waters, the first offshore fields of the Caspian were developed in 1920s. In 1949, thus Baku became the first true offshore oil producer in the world.

During the World War II, Baku's oil fields entered their second boom as a leading oil producing region of the Soviet Union.<sup>5</sup> "Crude oil production in Azerbaijan peaked in 1941 at 470,000 b/d, which was more than 71% of total Soviet output".<sup>6</sup> Capturing the Baku oil fields had been one of the prime objectives of the Southern campaign of the Nazi Germany.

The discovery and the development of the oil fields in West Siberia gradually ousted the importance of the Azeri oil starting from mid-1950s. By the late 1970s, Moscow had redirected much of its oil investment priorities to West Siberia, with long-term plans to return to the Caspian in the opening decades of the XXI century.<sup>7</sup> Since that time and even a little bit earlier the oil production in the Caspian had been in a steady decline. The oil production in Azerbaijan fell steadily from 14.7 million tons per year in 1980 to 11 million tons in 1992.<sup>8</sup>

Under such conditions Azerbaijan achieved its independence in October 1991. The independence of Azerbaijan caught the oil industry in its decline – the decreasing oil production and the overused technology needing urgent investments unavailable in the country. The oil production fell steadily until 1996, when it leveled at about 9 million tons per year.<sup>9</sup>

### **Independence and the New Oil Boom: Economic Perspective**

Already by the beginning of 1991, even before the independence of Azerbaijan had formally been achieved, the Western oil companies started negotiations with the leadership of Azerbaijan SSR. The replacement of the communist leadership by the nationalist government in 1992 intensified the negotiations. With so much hope for the oil boom among the Azeri public as well as the oil companies, which joined the venture, a natural question arose: What is the potential for the oil boom in Azerbaijan and how competitive would the Azeri oil be in the global oil market?

*The Reserves of the Caspian*

The initial estimates of the oil reserves of the Caspian had been very high. The estimates, which originate from the U.S. State departments report stood at “200 billion barrels of oil, or 20 percent of the world’s total”.<sup>10</sup> That was the figure caught up by the media and elaborated over and over again. The oil experts in Azerbaijan and elsewhere knew from the beginning that the figure was too exaggerated. Basically, the calculation was based on the assumption that every geographical trap in the subsoil of the Caspian held nothing else but oil. The political implication of that high estimate was the consequent focusing of the Western countries on the Caspian region. Some oil business experts would argue that the figure was exaggerated deliberately by the U.S. executive branch in order to convince the U.S. Congress in the importance of the Caspian region and neutralize the faction in the legislative body going against the U.S. involvement in the Caspian region. The motivation of that faction was based on fears to upset Russia. That faction was quite strong in the U.S. politics and even in the U.S. State Department the Deputy State Secretary Strob Talbot served as an ardent proponent of the policy, which could be summarized in one short sentence: “Russia is more important!”

The problem with those high estimates was that as soon as a few explorations met with empty wells, the media campaign went in the reverse direction, claiming that it was all bluff and the Caspian had no significant oil reserves whatsoever. The reality is that “a proven recoverable oil reserve of 17.5 billion barrels had already been discovered in the South Caspian (Azerbaijan and West Turkmenistan)”.<sup>11</sup> That figure already equates the Caspian reserves to the reserves of the North Sea. Experts expect about 30 billion barrels more to be discovered in future. If to add to these estimates the new information about the giant Kashagan oilfield in the Kazakh sector, with the estimated reserves of 7 billion tons of oil<sup>12</sup> (the Kazakh government figure of about 45 billion barrels seems too high and the oil experts of the Western companies put the figure at 15 billion barrels which is still quite high), it becomes clear that the oil reserves in the Caspian are quite significant, even though they are not as large as the reserves of the Middle East.

*The Competitiveness of the Caspian Crude in the World Market*

The competitiveness of the Caspian oil in the world market is related to the development costs of oil. “The full cost of producing Caspian crude is currently about \$12.50 per barrel”.<sup>13</sup> It is much higher than the full production costs of the Middle East crude and equal to the costs of the North Sea crude. So, it is obvious that the Caspian crude will not compete strategically with the reserves of the Middle East, but will have quite a favorable opportunity vis-à-vis the North Sea reserves. Despite the fact that the full costs of producing crude in the latter basins are equal, two cost elements that dominate the Caspian barrel – transportation (\$6.50/barrel) and drilling (\$3.00/barrel) are likely to fall within the foreseeable future.<sup>14</sup> Running ahead, I would also mention that the Baku-Ceyhan pipeline arrangement alone would cut the transportation costs by half. So, with the oil price of about \$15 per barrel or above the Caspian crude will be quite competitive in the world market. With the current price of oil standing at about \$25 per barrel, the Caspian crude highly competitive in the world market.

*Marketing of the Caspian Oil*

The marketing of oil is the key element in deciding over the pipeline route from the economic point of view. The Emirates Center for Strategic Research has produced a serious work highlighting the challenges of the Caspian crude for the marketing of the Gulf oil. The very title of the book, “*Caspian Energy Resources. Implications for the Arab Gulf*”, suggests the analyses of the Caspian reserves as a potential rival to the Gulf countries. One of the authors, Fadhil Chalabi goes as far as indirectly suggesting that if the Arab countries kept the oil price at the range of \$13 per barrel, the Caspian oil reserves would be deprived of the economic competitiveness in the world market.<sup>15</sup>

It is true that that the high oil prices in the oil market makes it possible for the high cost oil business of the Caspian or the North Sea reserves flourish. Otherwise, it would be virtually impossible for those basins to compete with the region where the overall cost of producing

oil is \$2.50 per barrel. However, the next chapters of the same work revealed that at its height the Caspian crude would claim a very narrow market in Europe and that there was no justified need for the Middle Eastern oil producers to play with the oil prices against the Caspian venture. As the former president of the Azerbaijan International Operation Company Terry Adams puts it, "It (the Caspian Oil – G. A.) is only going to provide some 3-5% of global supply and it is not for major markets in the West, it is a very focused delivery into the Black Sea and into the Southern Mediterranean, where there is sufficient demand to absorb most of this oil up to at least 2010".<sup>16</sup> The same can be said about the gas market: Turkey is expected to be the biggest consumer of the Caspian gas with its increasing demands.

Summarizing these thoughts, one can conclude that the Caspian reserves are unlikely to disturb the global market for oil, but have a stable market in at least a part of Europe.

### **Independence and the New Oil Boom: Political Perspective.**

Even before formally achieving the independence, the Azerbaijani public broadly viewed oil as a vital strategic product that could basically cure all diseases. It could bring money into the republic, which suffered a severe economic crisis by the end of 80s and on the foreign relations dimension it could secure friends in the international arena in order to encounter both Russian and Armenian threats to the independence of the country. The latter factor was especially important, since there was a hot ethnic conflict in the Autonomous Region of Mountainous Garabagh between the Azeris and Armenians, to which the state of Armenia became an active party. Since the national movement in Azerbaijan led by the Azerbaijani Popular Front struggled against the USSR and the Armenian aggression at the same time, the Azeris could not appeal to Moscow for protection.

*Local Dimension*

Oil was seen among many Azeris as a vital instrument to find a support from abroad and therefore the oil negotiations that were going on between the leadership of Azerbaijan in 1991 were not seen in the Azeri public just as an economic venture. However, the following course of events prevented the leadership of Azerbaijan from signing the oil contracts.

The year 1992 was eventful. At the beginning of 1992 hundreds of Azeri civilians were massacred in Khojali by the Armenian forces in the region of Mountainous Garabagh assisted by the 366<sup>th</sup> Regiment of the Russian army.<sup>17</sup> The Azeri government was accused of utter incompetence for its inability to helping its citizens, who were being slaughtered and he was forced to resign on 6 March 1992 by the mass demonstrations led by the Azerbaijani Popular Front. An interim government was formed which consisted of a balanced representation of communists and the nationalists. It lasted until 7 June 1992, when the Azerbaijani Popular Front formally assumed the power after its leader Abulfaz Elchibay was elected a president of the country. Between 6 March and 7 June, the Armenian forces used the chaos in the government of Azerbaijan and seized Shusha (8-9 May 1992), the last Azeri town in the Mountainous Garabagh and Lachin – an Azeri region between the Mountainous Garabagh and Armenia (17 May 1992). The newly formed nationalist government of Azerbaijan faced a full-scale war already on the go with Armenia, which managed to establish territorial links with the Mountainous Garabagh (after occupying Lachin region). The Azeri offensive that started on 12 June 1992 brought some successes in the north of Mountainous Garabagh, where the Azeri forces took under control the regions of Goranboy and Aghdara, but it failed to bring decisive results. The active war continued up to October 1992, when the front stabilized.

Because of active military engagement in 1992 no serious results were achieved in the negotiations with the Western oil companies.



*Foreign Factors*

The Russian factor was the biggest single factor affecting the political and economic processes that developed in the Caucasus and therefore it will be examined in a separate sub-section. Aside from Russia there were two regional powers – Iran and Turkey influencing the situation in and around Azerbaijan and the U.S. although, its influence was insignificant between 1991 and 1994.

“Significantly, in late November 1991, Iranian foreign minister Ali Akbar Velayati, while on a trip to the Soviet Union that included Baku, had spoken of the need for a united and powerful Soviet Confederation in order to prevent “independent” republics from coming under Western influence. Velayati’s remarks were particularly striking bearing in mind that Turkey had already recognized the independence of Azerbaijan on November 9”.<sup>18</sup>

That paragraph reflects a concise summary of the relations between:

- Iran and Azerbaijan;
- Iran and Turkey;
- Turkey and Azerbaijan.

Turkey was among the first countries to recognize the independence of Azerbaijan, while Iran was among the last. In the beginning of May 1992 Iran tried to shore up a positive image in Azerbaijan by attempting to mediate the Garabagh conflict between Armenia and Azerbaijan. However, the day when the speaker of the Azeri parliament and the acting head of Azerbaijan, Yagoub Mammedov had gone to Iran for negotiations, the Armenians launched a surprise attack in the Mountainous Garabagh, occupying the strategic town of Shusha. Whether true or not, the Azeri public opinion saw Iran as a part of the plot and Iran was never trusted on the Garabagh issue anymore.

With the nationalist government coming to power in June 1992, Turkey’s role significantly strengthened in Azerbaijan. The open pro-Turkish policy of the Elchibay government made the years 1992-1993 the golden age of pan-Turkism. The Organization of the Unity of the Turkic People, the Black Sea Economic Co-operation Organization were established in this period with a heavy pro-Turkish accent.

Iran tried to balance the course of events by initiating the expansion of ECO to Azerbaijan and Central Asia, with the Turkish participation and by succeeding in the establishment of the Caspian Sea Co-operation Council without the Turkish participation 'to the further embarrassment of Turkey'.<sup>19</sup> Iran comfortably found itself in an alliance with Russia against the Turkish factor in the Caucasus. That reflected itself in a lasting co-operation between those countries on the issue of the Caspian status. Up to the end of 1998 Iran held the same position as Russia on the issue claiming that the Caspian should be under the common ownership of all coastal states. The position aimed at preventing the newly independent states of the Caspian to explore and exploit the mineral resources of the Caspian in their own sector did not find a strong ground.

In December 1998 Iran declared a tender in the South Caspian, covering the areas of national sectors of Turkmenistan and Azerbaijan. In 1999 Iran specified its claims in the Caspian: Ignoring the Soviet-Iranian border in the Caspian along the Astara-Hasangulu line, the Iranians presented a map laying claims to a large zone penetrating deep into the Turkmen and the Azeri sectors. The position was based on the principle of "the probable creation of national sections based on approximately 20% area per littoral state", suggested earlier.<sup>20</sup>

It would have been logical for the Azeri nationalist government of 1992 to expect some help from the USA, because it had been the American strategy to defend the newly independent states against the encroachments of Russia, or even worse (from the U.S. perspective) – Iran. However, all that the United States government did during the period of 1992-1993 until to the pro-Russian coup was imposing economic restrictions on Azerbaijan (Section 907 to the Freedom Support Act) for alleged blockade of Armenia and the Mountainous Garabagh. The fact was explained by the domestic policy variables in the U.S. or namely the Armenian lobby at the U.S. Congress. In vein did the first mediator of the U.S. to the Mountainous Garabagh conflict John J. Maresca notes: "Section 907 assumes that Azerbaijan has played an offensive role in the conflict over Nagorno-Karabakh. The wording of the restrictive clause refers to what it calls Azerbaijan's "offensive uses of force against Armenia and Nagorno-

Karabakh.” But clearly Azerbaijan is not conducting offensive uses of force against anyone. On the contrary, it is Azerbaijan, whose territories have been occupied, resulting in the suffering of hundreds of thousands of internal refugees”.<sup>21</sup> Human Rights Watch’s comment on the situation was: “[U.S.] Congress’s Karabakh policy seems a captive of U.S. domestic politics”.<sup>22</sup> Taking that factor into account one might say that the U.S. did barely exist for Azerbaijan in the period between 1992 and 1993.

### *Russian Factor*

On 8 December 1991 Russia, Belarus and Ukraine signed Belovejsk treaty, putting an end to the existence of the USSR. The treaty established the Commonwealth of Slavic States. Seeing objective prerequisites to include other former Soviet republics to the Commonwealth, the structure was renamed to Commonwealth of Independent States and eight more republics joined it by signing Alma-Ata declaration on 21 December 1991. The countries that joined the CIS besides Russia, Ukraine and Belarus were Kazakhstan, Uzbekistan, Turkmenistan, Kyrgyzstan, Tajikistan, Moldova, Armenia and Azerbaijan. Baltic republics and Georgia did not join the treaty (Later, Georgia would pay dearly for its courageous step, when in 1993 the country would be on the verge of disintegration).

At the beginning of 1992 Russia came up with the initiative of the Collective Defense Treaty, which would legalese the existence of Russian forces all over the former Soviet Republics. Under the strong pressures from the Azerbaijani Popular Front, the communist leadership of Azerbaijan rejected the treaty. It was then that the Armenian forces assisted by 366<sup>th</sup> Russian Regiment based in Garabagh attacked and committed an impressive massacre of the Azeri civilians in Khojali. Directly afterwards, the president of Azerbaijan Ayaz Mutallibov accused the Popular Front of excessive radicalism against Russia and its negative attitude towards the Collective Defense Treaty that brought to the massacre of the Azeri civilians. The Azeri public read it the other way around: Russia participated in the killings of Azeris in order to intimidate the people

and force the country into the CIS structures and the Collective Defense Treaty, while the pro-Russian Ayaz Mutallibov passively participated in that plot by not rescuing the Azeri citizens in Khojali. The public anger forced the president to resign.

The nationalist government that replaced the old one had the removal of Russian influence from Azerbaijan as its number one priority. That went contrary to the Russian policy based on the assumption that Russia had special rights all over the post-Soviet area. "In 1993, Yeltsin went as far as to advocate in public the idea that the major powers should give Russia a special status as dominant power in the territory of the former Soviet Union, the guarantor or protector".<sup>23</sup> Due to this contradiction the whole one-year government of the Popular Front in Azerbaijan was marked with confrontations with Russia.

As soon as the Azerbaijani Popular Front came to power one of its first moves was the withdrawal of Azerbaijan from the CIS, "a step that prompted Russia to retaliate by raising the import duties on industrial products from Azerbaijan to 65%, causing many Russian enterprises to cancel their contracts in Azerbaijan".<sup>24</sup> The next round of contradictions went around the currency issue. The Russian monopoly over the production of the Soviet rubles (the money was in the former Soviet republics up to 1993-1994), forced Azerbaijan to hastily introduce its own national currency – manat, which stopped the manipulation of the inflation rates in the country, caused by ruble.

#### *Withdrawal of the Russian Troops from Azerbaijan. Coup d'état in Azerbaijan*

The Popular Front government of Azerbaijan had been actively demanding the withdrawal of the Russian army basis in Azerbaijan and transferring its weapons to the Azerbaijani armed forces. The price of such a demand was the occupation of Kalbajar region of Azerbaijan in April 1993. The Azeri government claimed the participation of the 7<sup>th</sup> Russian Army situated in Armenia. The UN Security Council issued a resolution No. 822, demanding the

withdrawal of the Armenian forces from the occupied region, which had no effect on the aggressor.

Despite all the difficulties, the Azeri government managed to get the agreement of the Russian authorities to evacuate its troops from Azerbaijan. Since the army was still the Soviet army and each republic of the former Soviet Union had its share in the equipment of the army, special negotiations took place about the transfer of the weapons of the Soviet troops located in Azerbaijan to the government of the Republic. Out of four former Soviet divisions (with Russian personnel) placed in Azerbaijan only the division in Baku handed its arms to the army loyal to the government. In Nakhichevan the Russian division handed its weapons to the Speaker of the Supreme Majlis (parliament) of Nakhichevan Autonomous Republic, Heydar Aliyev; In Lenkoran region of Azerbaijan the next Russian division handed its weapons to the division headed by Alikram Humbatov (who participated in the coup of 1993 and attempted to create a separatist Talish-Mughan Republic); In Ganja the weapons were handed to Colonel Surat Huseinov, who launched a coup against the government the week after he got the weapons. "The last Russian unit, the above mentioned 104<sup>th</sup> Airborne Division in Ganja, pulled out of Azerbaijan on May 28, 1993 making Azerbaijan the only former Soviet Republic without Russian troops in its territory. While soldiers of the 104<sup>th</sup> Airborne left, most of their weapons did not, falling to Huseinov and his troops".<sup>25</sup> On 4 June 1993 the colonel Huseinov launched a coup d'état against the government from Ganja.

Later the ousted president of Azerbaijan would write: "Contracts with Western oil companies were to be signed in the beginning of autumn 1993. On 30 June during an official visit to Great Britain the president of Azerbaijan was to sign an agreement on economic co-operation. The contract on the construction of the pipeline and transport communications from Central Asia to Europe through the territory of Azerbaijan was almost ready".<sup>26</sup>

The coup postponed all those plans for a year. Instead, Armenia again used the power vacuum created by the coup and occupied six more regions of Azerbaijan, which surrounded the Mountainous Garabagh. The UN Security Council issued three more resolutions –

No. 853, 874, 884 calling on the Armenian forces to withdraw. Over 800,000 people fled their homes creating an enormous social crisis in the Republic.

The coup resulted in a coalition government between Surat Huseinov himself, who made the coup and Heydar Aliyev, the former communist boss with extensive contacts among the former partocrats. In this arrangement Heydar Aliyev became the president, while Surat Huseinov acquired the position of the premier of the Republic. On 24 September 1993 Azerbaijan signed the accession treaty for the CIS and the Collective Defense Treaty. This development of events postponed the oil contracts with the Western companies for one year.

*Preparations for Oil Contracts. The “Contract of the Century”.*

In December 1993-January 1994 the new Azeri government launched a counter offensive against the Armenian forces in Garabagh. The hopes of the new pro-Russian government to get the Russian support (in exchange for the CIS membership and signing the Collective Defense Treaty) failed. The Azeri government led by Heydar Aliyev, in its turn rejected the further Russian demands to get Azerbaijan agreeing to the return of the expelled Russian troops back to the country.

In May 1994 Azerbaijan signed a cease-fire agreement with the Armenian forces in Armenia and the Mountainous Garabagh, which was mediated by the Russian Defense minister Pavel Grachev. Having stabilized the front, the president Aliyev turned to deal with two key issues – the neutralization of the more pro-Russian Prime Minister Surat Huseinov and the preparation of the oil contracts with the Western oil companies, which would gradually re-orient the Azeri foreign policy from Russia towards the West.

“On 20 September 1994 the government of Azerbaijan and AIOC [Azerbaijan International Operation Company] signed an agreement to develop the Gunashli, Chirag and Azeri oil fields offshore at Baku”.<sup>27</sup> The agreement secured \$8 billion investment for the oil sector and was expected to bring \$30 billion profit.

On 4 October 1994 Suret Huseinov staged another coup attempt this time against Heydar Aliyev. He failed and fled to Russia.

### **The Start-up of the Oil Business in Azerbaijan. Pipelines for the Early Oil**

#### *The Start-up of the Oil Business. Caspian Status.*

In 1992 the nationalist government of Abulfaz Elchibay maintained that the Caspian was a lake and that it should be divided to national sectors according to the median line, which had actually already been introduced during the division of the Caspian into economic sectors among the republics during the Soviet times. Russia argued that the Caspian was a sea and that the coastal states were entitled to a narrow strip of territorial waters, leaving the middle of the for a 'common usage'. "Russian approach would create semblance of a hole in the center of the Caspian, and has become known to diplomats as the 'doughnut' approach".<sup>28</sup>

In 1993 Russia modified its approach this time declaring that the Caspian was a lake and the rest of the position remaining untouched. The modification of the Russian position seemed to have simple reasons. The initial Russian opposition to the idea that the Caspian was a lake was based on the fears that the Caspian could be divided according to the median lines without any 'common usage zone' in the middle for Russia to dominate. The sea approach was seen as a remedy to limit the coastal states' rights in the Caspian to some zone calculated from the coast. However, the United Nations' Convention on the Law of Sea (1982) or simply UNCLOS III mentions zones besides the territorial waters, such as the continental shelf and the exclusive economic zone, which would entitle the coastal states to the rights over the living and mineral resources of the Caspian up to 200 nautical miles calculated from the straight baselines of their coasts. Taking into account the size of the Caspian the zones would overlap and force the states to agree to the median line division anyhow. The sea option in this case would be worse than the lake option for Russia, since if it were to argue that the Caspian was a sea,

its only access to the oceanic waters would be the Volga-Don channel of Russia. The provisions of the UNCLOS III on the enclosed and semi-enclosed seas in this case would oblige Russia to let the free passage of all the Caspian states through that channel, since it would be the only access of the 'sea' to the oceanic waters. Later, the Russian position had stabilized at declaring the Caspian to be a 'special water reservoir', which still maintains that the coastal states should have a common usage zone in the Caspian.

Directly after the signing ceremony for the "Contract of the Century" the problem of the status of the Caspian was brought up by Russia with all its acuteness. On 9 October 1994 the Russian Foreign Ministry circulated a document reflecting the Russian position on the oil business in the Caspian. The document called illegal any oil business in the Caspian prior to reaching an agreement about the status of the basin. It read: "Russia reserves to itself the right to take such measures as needed, at a suitable time, to restore the legal order and eliminate the consequences of unilateral step... All responsibility for possible material damages rest on those who take unilateral steps".<sup>29</sup> To simplify the text, Russia was in effect threatening to come and destroy the oilrigs. Fortunately, Russia did not undertake any actions to enforce its threats.

There were two paradoxes related to the position of Russia. One of them was related to the fact that Azerbaijan had been producing offshore oil on a regular basis during the USSR and after the collapse of the USSR without any Russian protest. Russia adopted an antagonistic line only when the Western oil companies arrived and concluded contracts with Azerbaijan and it was then that the oil business was declared illegal by Russia. Vice-president of the State Oil Company of Azerbaijani Republic (SOCAR), Ilham Aliyev (he is also the son of the current president of the Republic) pointed at that paradox: "Azerbaijan produces about 10 million tons of oil a year, 70% of that is produced from offshore fields, which we produce ourselves without any foreign investment. If the problem is about the offshore fields, why does the Ministry of Foreign Affairs of Russia not also claim those fields?"<sup>30</sup>



The second paradox was that the “Contract of the Century”, which triggered the Russian Foreign Ministry’s anger included the participation of the biggest public-private oil company of Russia – LukOil, whose biggest shareholder was GasProm, led by the Russian Premier Chernomyrdin himself. The representative of the LukOil, Alexander Vasilenko commented on the situation as follows: “There was an inter-government agreement between Russia and Azerbaijan signed last October, which Yuri Shafranik (the Russian Energy minister) signed permitting an agreement between LukOil and Azerbaijan, LukOil always works within the bounds of the law, and that is how we intend to work now”.<sup>31</sup> Later the Russian officials came with a bizarre concept that the participation of a state controlled Russian LukOil company in the Azeri sector of the Caspian did not contradict with the Russian position of considering the oil work illegal in the Caspian.

The simple explanation for these paradoxes was that the Russian officials knew the oil business in the Caspian had done no injustice to Russia. Since the Soviet times the Caspian has been divided to the sectors and each republic knew what part of the Caspian it owned and they worked according to the map produced by the ministry of Oil Industry of the USSR. After the collapse of the USSR each republic attained its borders according to the tacitly accepted principle of *uti possidetis*. Differently from the splash of ethnic conflicts, no serious border claim was formally made by any republic of the former USSR to another. That explains why the offshore oil production of Azerbaijan in the Caspian did not upset Russia. The arrival of the Western oil companies into the Caspian was seen by Russia as an attempt to interfere with its “zones of traditional influence, which evolved, or if you like, were won over centuries”, as the Russian Foreign Minister, Andrey Kozyrev put it in 1993.<sup>32</sup> The Caspian status was seen as a comfortable tool to create problems for the development of economic ties between the countries of the “Near Abroad” and the West. Meanwhile, there was nothing wrong for a Russian company to benefit from the oil work in the Azeri sector of the Caspian, which would leave Russia with something if the foreign

policy adventure on preventing the oil business in the Caspian had failed.

The foundation of the Russian argument against the Caspian business was that there was no formal agreement between Russia and Azerbaijan on the borders in the Caspian. There is also no formal agreement between Russia and Azerbaijan on land boundaries. However, Russia fully recognizes the territories of the former Azerbaijan SSR as the territories of its current heir, Republic of Azerbaijan.

The Caspian status divided the countries along the lines of acceptance or non-acceptance of the Western involvement in the region. Not surprisingly, Russia and Iran maintained somewhat similar positions on the issue, while the newly independent states of Azerbaijan and Kazakhstan were on the other side of the fence. Turkmenistan would objectively be in the same camp as Azerbaijan and Kazakhstan. However, its dependency on Russia turned it into a puppet representative of Russia at the conferences on the Caspian status. "Its impoverished economy was brought to a virtual halt after Russia stopped Turkmen gas flowing to Western Europe – the Turkmen are obliged not to step too far from the Russian line on the question of the Caspian status".<sup>33</sup>

The detailed analysis of the issue of the Caspian status is beyond the scope of this paper. It is just worthwhile to remind that after the escalation of the confrontations between the Caspian states in 1996, two conferences, first in Tashkent, then in Ashgabad showed the relaxation of the Russian position. Soon afterwards, Russia proposed the complete division of the Caspian seabed into national sectors while leaving at least the subsurface of the water of the Caspian under the common usage, the proposition which was accepted by Kazakhstan, but rejected by Azerbaijan. In 1998 the Russian-Kazakh and Turkmen-Azeri agreements effectively put an end to the idea of the common ownership in the Caspian, acknowledging its division into national sectors. The last state to compromise its position on that issue was Iran.

However, the next set of problems came up with different territorial claims in the Caspian made by the same camp of states

against Azerbaijan and Kazakhstan. Russia made four territorial claims to Kazakhstan in the Caspian, Turkmenistan made up a map hitting Baku and claiming all the oil deposits, which were under the AIOC operation and Iran made a triangle out of the Astara-Hasangulu straight line penetrating deep into the Azeri and Turkmen sectors. In some cases there were some merits to the claims (Turkmen claims to the Kapaz oil field of Azerbaijan had some merits, since the hypothetical median line between the Azeri and Turkmen coasts would divide that oilfield into two), but the general realm of these claims was the continuation of the Russian-Iranian resistance against the Western involved oil business in the Caspian with an added Turkmen flavor.

### *Oil Strategy of Azerbaijan*

Despite the fact that there was no official document adopted by any formal government institution in Azerbaijan, one could see two basic principles underlying the Azerbaijani foreign behavior regarding the oil issue. They were:

1. Inclusion;
2. Participation or the initiation of alternative regional co-operative arrangements.

The first principle is dealing with including all the regional powers in the Caspian oil business in order to reinforce the recognition of the Azeri national sector in the Caspian. That principle was applied primarily with respect to the states in the region, which held a negative attitude towards the oil activity in the Caspian – Russia and Iran. The second principle dealt with arranging and institutionalizing the relations of Azerbaijan with the friendly states in order to have a security balance against the mentioned two states, such as the establishment of a regional alliance, called GUUAM (Georgia, Ukraine, Uzbekistan, Azerbaijan and Moldova), and prior to that body the activation of the Georgia-Ukraine-Azerbaijan trio within the CIS and the Georgia-Turkey-Azerbaijan trio in the Caucasus.

The inclusion policy had a certain success in avoiding the escalation of confrontation with Russia and Iran. As mentioned before, the Russian public-private company LukOil was involved in the “Contract of the Century” with a serious 10% share of participation. Later the Russian oil firms Transneft and Rosneft were also included into the Azeri oil projects in the Caspian. In 1995 Azerbaijan also attempted to include an Iranian company into the “Contract of the Century” by selling it a 5 % share of its participation. However, a strong resistance from the U.S. government authorities forced the AIOC to vote against such a decision (AIOC had a heavy presence of the American oil companies in it). Azerbaijan had to withdraw its initial offer to Iran. “Azerbaijan attempted to compensate by offering a share in another Caspian oil project (Shakh Deniz), which does not involve U.S. companies, but Iran was clearly aggrieved”.<sup>34</sup> We have to mention that despite the initial rejection by the Iranians to accept the offer, they ended up in accepting it later on. At present, the Iranian company called Oil Industries’ Engineering & Construction (OIEC) is participating in Shahdeniz project. In total, the OIEC participates in two oil and gas projects in Azerbaijan.

All foreign companies participating in Azeri oil projects sign a standard contract which contains the following paragraph in its preamble: “... ownership of all petroleum existing in its natural state in underground or subsurface strata in the Azerbaijan Republic, including the portion of the Caspian within its jurisdiction, is vested in the Azerbaijan Republic...”<sup>35</sup> After having their public-private companies sign such a treaty with the government of Azerbaijan, it would be quite difficult for Russia and Iran to maintain a legal argument that they never recognized the Azeri sector in the Caspian Sea.

However, merely including the Russian and the Iranian oil companies into the oil projects in Azerbaijan could not provide for the full security of the oil business in Azerbaijan. The mentioned states have shown an extraordinary ability to change their positions on the status of the Caspian and other issues related to the security of oil business in the Caspian. The mere contradiction between the actions of their companies and their foreign ministries’ position would not

give any guarantees that they abandon their policies preventing the safe business in the Caspian. Being a landlocked country Azerbaijan could suffer anytime from Iran or Russia, if those states simply restricted their border regimes –a potential threat, which became real several times in the past since the independence of Azerbaijan. In order to guarantee a friendly access to the Black Sea and the Western Europe Azerbaijan had to establish and maintain alternative channels of communication through more friendly states. The axis of Azerbaijan-Georgia-Ukraine, which started its formation since the end of 1993, was a perfect example of the policy of Azerbaijan aimed at securing such an alternative access. The same could be said about the Azerbaijan-Georgia-Turkey access, which was being established at about the same time. Between these trios, the Azerbaijan-Georgia-Ukraine alliance managed to institutionalize itself by the establishment of GUAM (later turned GUUAM with the inclusion of Uzbekistan) in 1996, while the other one keeps its existence through a set of bilateral arrangements between Turkey, Georgia and Azerbaijan. The regional arrangements among all the countries mentioned above covered a wide range from the economic and the trans-boundary co-operation up to the military co-operation.

In the light of what was mentioned above it would seem quite logical that the pipeline decisions were certainly going to be affected by both, the principles of inclusion and the alternative regional co-operative arrangements.

### *Options Available*

When talking about the options for the transportation of oil and gas from the Caspian region, one should not forget that due to the extensive oil work in the region during the USSR, there were ready pipeline communications. That factor made the commentators to write in 1995 “for Azerbaijan and Kazakhstan, the current politics of resource exploitation were defined by physical location of Soviet constructed oil pipelines, all of which traversed the Russian Federation”.<sup>36</sup>

*The Russian option*

The above mentioned quotation brings to a conclusion that commercially, the Russian option would be more viable, simply because little work had to be done to modify the existing parts of the pipeline and to construct the new part. About \$50 million was needed for building up Baku-Novorossiysk pipeline through Russia, while the widely discussed alternative through Georgia to the Black Sea would need about \$275 million of investments. However, there is no more conclusion to draw from the earlier mentioned quotation: Any plans to construct another pipeline that would bypass Russia would mean introducing changes into the existing status-quo, something that would certainly bring to a Russian upheaval.

Despite all of its commercial feasibility, the Russian option was considered to be the riskiest among the pipeline routes. We have to remember that the discussions for building the pipelines for the early oil were taking place in 1994 and it was only December 1994 that Russia started the full-scale military operations in Chechnya, which was on the route of the proposed Baku-Novorossiysk pipeline to the Black Sea. It was only after the cease-fire agreement in 1996 that Russia began contemplating the construction of a pipeline section of Baku-Novorossiysk that would bypass Chechnya and it was only 1999 that the construction of the bypass was accomplished. Even then, the bypass went through Dagestan (with a serious conflict potential in it) and in the area of the Stavropol Oblast of Russia, which was quite close to Chechnya. Back in 1994, perhaps not many saw the potential dangers of dealing with the Russian territory as clearly, as they now do in the wake of the rising discontent and chaos in North Caucasus.

Another set of problems was related to the attitude of the Russian government itself. Nobody could guarantee that Russia would not use the pipeline passage as a tool to pressure on Azerbaijan, or even worse to disrupt the oil business. On 19 December 1994, the Russian government issued a decree No. 1394 closing down the entire length of boundaries with Azerbaijan.<sup>37</sup> The Chechen war was cited as a reason for such measures; however, at the time when the Chechen fighters continued buying their weapons from the Russian generals

continuing their fight, the Azeri economy suffered a severe blow (the shortage of bread in Azerbaijan lasted up to April 1995).

Understanding all these problems, nobody in the Azeri government was enthusiastic to have the pipeline pass through Russia, especially if that was going to be the only one to serve both for the early and the main oil exportation. However, what were the alternatives to the Russian or the northern route?

### *The Alternatives*

In 1993 the overthrown Azeri government seemed to have a general agreement with Turkey about the transportation of oil to the Turkish port of Ceyhan. "The pipeline would have entered Turkey via the enclave of Nakhichevan after following the line of the Iranian border from Baku, made a brief excursion into Iranian territory to avoid Armenia and been over 1000 kilometers long".<sup>38</sup> The weeks after the agreement was signed the Armenian forces attacked and occupied all those regions, through which the pipeline had to pass, taking under control 161 kilometers of the Azeri-Iranian. With little opposition, the new government rejected the plan for that pipeline agreed between the former Azeri government and Turkey.

Another alternative was the pipeline through Iran to the Persian Gulf. Due to the U.S. opposition to that plan the American companies inside the AIOC would make it impossible to adopt any such plan, while Iran itself had not been actively lobbying for that route at that time.

All the other routes were related to the so-called western route. There were plans to construct a pipeline to Turkey through Armenia, heavily supported by the Americans, which nevertheless contradicted the reality. The so-called peace pipeline through Armenia, which had just been occupying about 25% of the Azeri territories and driving away about a million people from their homelands could not appeal to the Azeri public. The other two routes in this direction were the Baku-Supsa (to the Black Sea port of Georgia) and the Baku-Tbilisi-Ceyhan pipelines. Both plans had one weak point – Georgia. In 1994, Georgia was in its weakest condition and extremely vulnerable to the Russian

pressures. It was the year before that the Abkhaz separatists backed by Russia captured Sukhumi and forced the Georgian president to say that the country was “on its knees”. In 1994, Georgia could not compete with the northern route, while during the next years it managed to prove a viable alternative to the northern route (with the strong political backing from Turkey and the U.S.).

*Decision on the Northern Route: Baku-Novorossiysk Pipeline*

Due to all those factors mentioned above, the AIOC could not reach any decision on the pipeline on the early oil in 1994. According to the former president of the AIOC, Terry Adams the upgrading of the Baku-Novorossiysk line was mentioned as one of the obligations of the Consortium in the “Contract of the Century”. However, whether that would be the only line for the early oil or not was under question. Between January-July 1995 the AIOC carried out the evaluation of the Baku-Supsa and Baku-Novorossiysk lines. Despite the fact that the construction of Baku-Novorossiysk line was much cheaper than the Baku-Supsa line, cheaper transportation tariffs of the latter made both options commercially viable.

In October 1995 the AIOC made a formal decision to choose both lines. According to the former president of the AIOC, Terry Adams the Azeri government insisted that the first inter-government agreement on the pipeline for the early oil be signed with the Russian government. In the beginning of 1996 Azerbaijan signed an inter-government agreement with Russia approving the construction of the Baku-Novorossiysk pipeline. Russia officially undertook the obligation to guarantee the security of the transit of the Azeri oil through the Russian territory.

The pipeline, 1347 km long (according to the measurements of the AIOC), was supposed to have the initial capacity of transporting 120, 000 barrels of oil per day and have the expansion capacity of 350,000 barrels per day.

In September 1997 Russia signed one of the strangest inter-government agreements with Chechnya. As mentioned before, 1996 Russia undertook the obligation to provide the security of the



transportation of the Azeri oil through the Russian territory in 1996. There was one more side – Chechnya, which refused to guarantee for the security of the pipeline passing through Chechnya, if it did not receive a certain percentage of the transportation tariffs. Chechnya was shown as a totally independent unit (since it did not recognize the Russian authorities) in the agreement between Russia and Chechnya, receiving a tariff payment of 43 cents per ton of oil (6 cents per barrel) for the part of the Baku-Novorossiysk passing through Chechnya.<sup>39</sup> Russia also agreed to give \$854,000 lump-sum to Chechens in exchange for the Chechen government's provision of security for Transneft personnel (the Russian public-private company operating in the area) and for the pipeline.<sup>40</sup>

The positive result of this agreement for Azerbaijan was that the Russian government guaranteed the safety of the 'Azeri oil' through its territory thus recognizing the legitimacy of the Azeri oil business in the Caspian. However, the negative side was the obvious fragile character of the agreement reflecting the inter-war balance of military powers between Russia and the rebel Chechnya. In 1998 the Baku-Novorossiysk pipeline became operational transporting about 100,000 barrels of oil per day. "Yet the pipeline was plagued by numerous shut-offs and operational problems in 1998 due to the situation in Chechnya, culminating in the indefinite shutdown of the line in spring 1999".<sup>41</sup>

#### *Decision on the Western Route: Baku-Supsa Pipeline*

There were reported pressures from the U.S. and the Turkish governments to avoid the decision of having single pipeline for the early oil, which would pass through Russia. That position was essential to prevent the Azeri government to fall to the Russian pressures, which were quite strong in 1994-1995. In a 25-minute telephone conversation with the Azeri president Heydar Aliyev, the U.S. president Bill Clinton is said to have "expressed his support for commercial viability... and multiple pipelines that would benefit the companies investing in oil development as well as the countries of the region".<sup>42</sup> That basically meant that the Azeri authorities should not

rule out the Georgian option. There was certainly no opposition from the Azeri side to have the oil pipeline passing through friendly Georgia and in this regard the Turkish and the U.S. “pressures” were quite handy to Azerbaijan and used as an argument against Russia. In these circumstances the whole responsibility for choosing the Georgian option was put on the Western oil companies whose respective governments ‘demanded multiple oil pipelines’.

In October 1995 the formal decision of the AIOC was announced to utilize two pipeline routes for the early oil, the second one being the Baku-Supsa pipeline. The pipeline was to be 917 km long (according to the AIOC measurements). It would have a transportation capacity of 115,000 barrels of oil per day and have the expansion capacity of 240,000 barrels of oil per day. As the Baku-Novorossiysk line the further transportation of oil from the Georgian port was seen to be carried out through the shipment through the Black Sea straits. Despite the Russian pressures on Georgia at the time Russia did not see the Georgian option as a big threat to the northern route. After all, the northern route was the cheapest to construct and consequently the first to be built and put to use and Russia could always cut down the transportation tariffs for political reasons, making the northern route more attractive.

In mid-1996 Azerbaijan and Georgia signed an inter-government agreement on Baku-Supsa pipeline. In 1999 the Baku-Supsa pipeline was accomplished and put to use, just at the right moment when Russia closed down the Baku-Novorossiysk line and the active military operations started in Chechnya. Up to this moment the Baku-Supsa pipeline is the most reliable operational line carrying the Azeri oil to the international market, working at its full capacity (6 million tons of oil per year).

### **The Pipeline for the Main Oil and the Gas Pipelines**

The political situation since 1994 had not been favorable to decide upon the pipeline for the main oil. There was also no rush for such decision, since the main oil pipeline, or as it is officially called,

the main export pipeline (MEP) would only be needed by the year 2003, when the high production of oil would demand it. Even then the expansion capacities of the early oil pipelines could save the situation.

The tough competition over the issue of the main oil pipeline was due to the fact that the constructed pipeline would not only be carrying the Azeri oil, but also have the capacity of carrying the oil from Central Asia. At that time there were two options for linking the Central Asian oil to the Azeri system proposed by the proponents of the Baku-Ceyhan pipeline:

- Shipment of the Central Asian Oil through tankers to the ports of Baku and then carry it from there through the would be pipeline from Azerbaijan to the Turkish port of Ceyhan;
- Construction of the Trans-Caspian oil pipeline that would pass under the Caspian and unite the shores of Central Asia and Azerbaijan and link that pipeline to the Baku-Ceyhan pipeline.

Both options were quite horrifying for Russia and not so pleasant for Iran, since the sole purpose of these plans served to avoid traversing Russia or Iran. The idea of isolation in one's own neighborhood would be naturally unacceptable for Russia and dangerous for Iran. The high stakes for the main export pipeline contributed to the acuteness of the debates around the issue.

### *Options possible*

The main competition over the MEP went between Russia and Turkey.

### *Baku-Novorossiysk*

As it was mentioned before, the Baku-Novorossiysk line had an expansion capacity of 350,000 barrels per day. Russia argued that it would be the cheapest option to expand the capacities of the northern line and if necessary to construct the second line parallel to that line, which would still be cheaper than other options. The minuses of this line were:

- It was passing through a rebel region of Russia – Chechnya;

- The construction of the MEP to the Novorossiysk port of Russia would drastically increase the navigation through the Black Sea straits, which would be environmentally dangerous;
- Russia itself did not maintain a stable attitude towards the oil business in the Caspian and could any time turn against it. The MEP passing through Russia would be a handy leverage of pressure against Azerbaijan in that case.

Since 1998-1999, when the confrontation between Russia and Chechnya deteriorated and resulted in a full-scale war, the Baku-Novorossiysk pipeline was effectively buried. After all the Baku-Novorossiysk line could not function properly even for the transportation of the early oil, being shut off in 1999. The Chechen bypass to the Baku-Novorossiysk line did not make it completely safe, since it still passed close to the area of acute military conflict.

#### *Baku-Ceyhan Pipeline*

The pipeline was to be the longest among the proposed pipelines – 1994 km long according to the AIOC estimates. The costs of constructing such a pipeline were ranging between 2.4 to 4 billion U.S. dollars according to different estimates. Thus it was also the most expensive pipeline. The only positive commercial factor in favor of that pipeline was that it would avoid passing through the narrow Turkish straits. In order to kill the northern route option for the MEP Turkey played the environment card up to its highpoint, ruling out any options to increase the trans-shipment through the Black Sea straits. Responding to the ideas about the Baku-Novorossiysk line being cheaper than the Turkish option, the state minister of Turkey in charge of Maritime Affairs, Burhan Kara said: “Those who want to make the straits an oil way should know that we can raise the transit fee five-fold anytime...Then they will see what happens to their dreams of cheap oil”.<sup>43</sup>

Of course, the argument of Turkey about the environmental concerns had serious grounds. “136 vessels transit [Bosphorous] strait daily, some carrying a potentially hazardous cargo, and that takes

place in the middle of 12 million populated highly urbanized city of Istanbul”.<sup>44</sup> However, the statements of the Turkish officials did not reject only the Baku-Novorossiysk pipeline, showing the same negative attitude toward any other option not passing through the Turkish Straits. In all the important statements the Turkish politicians also made it clear that Baku-Ceyhan pipeline was the only option acceptable to them.

#### *Other Options Bypassing the Turkish Straits*

In order avoid passing through the Turkish Straits a number of options came up, some of them being supported by Russia, others being simply suggested by countries which would benefit from such a transit. The Baku-Odessa-Brody line, proposed by Ukraine and the Baku-Constanza-Trieste line, proposed and actively lobbied by Romania fell under that category. All in all, there were six alternatives to the Baku-Ceyhan option bypassing the Turkish Straits. They were Samsun-Ceyhan (also passing through Turkey and a reserve plan of Turkey in case if the Baku-Ceyhan option failed), Bourgas-Alexandroupolis, Bourgas-Viore, Reverse Adria pipeline, Odessa-Brody and Constanza-Trieste.

Some of these routes, especially the Baku-Supsa-Bourgas-Alexandroupolis version was quite viable from the commercial point of view. However, the main problem with such routes was that no serious regional power would stand behind such projects. What could Georgia do alone to guarantee the security and stability of the transit through the above mentioned route? And what would that guarantee mean in the light of obvious vulnerability of Georgia to ethnic instability and pressures from Russia? Commenting on the Baku-Supsa MEP option, the special adviser to U.S. President Bill Clinton and Secretary of State Madeleine Albright for Caspian Basin Energy Diplomacy, ambassador Richard Morningstar said: “I think that is not particularly relevant to compare the costs of Baku-Ceyhan to other pipelines. The Baku-Supsa route, I believe, is unattainable as the main export pipeline because of the views of Turkey and the other leaders of the region”.<sup>45</sup> In effect, the comment openly stated the well-known

truth: All the MEP options for the Azeri oil should be related one way or another to one of three regional powers. Not surprisingly, the bypass plans for the Turkish Straits that did not benefit Turkey were buried.

### *Iranian Option*

From the commercial point of view the Iranian swap operation would be the cheapest option for Azerbaijan. This operation would basically mean that Azerbaijan transported oil to the northern regions of the neighboring Iran, while receiving the same amount of oil at the Persian Gulf terminals of Iran. Iran would charge certain swap fees from Azerbaijan for that operation. “600,000 – 700,000 b/d is the total capacity of Tehran, Tabriz and at a later stage Isfahan and Arak refineries. The swap fee to be charged for bringing Caspian oil there is \$3/bbl. However, it might be reduced”.<sup>46</sup> Even if Iran did not charge any swap fees it would still benefit from the operation, because it is cheaper for it to supply its northern provinces with the oil from neighboring Azerbaijan than to carry oil to that area all the way from the Persian Gulf.

All those factors made the Iranian swap operations quite attractive. However, there was a serious minus in that option. The demand for the swap operation had a maximum cap – 700,000 barrels per day. In order not to make itself totally dependent from the oil supplies coming from Azerbaijan, Iran would allow a maximum amount of 300,000-350,000 barrels per day of swap. In this case the question arises: what to do with the remaining of the oil of Azerbaijan? It becomes too little to transport through Baku-Ceyhan and too much for Iran to take it. The commercial arrangements could be made to transport the remaining of the oil through the early oil pipelines. However, in this case, Azerbaijan would have two out of its three oil transport outlets passing through the countries, which are not as stable and not as friendly as required for the safety of the oil business. Besides one of the main guarantors of the Western oil business in the Caspian, the U.S. stood adamantly opposed to doing any business with Iran. Taking into account the strong presence of the

U.S. oil companies in the AIOC and in the Azeri oil projects, one could not disregard the U.S. attitude towards Iran.

Another option suggested the transportation of the Azeri oil to the Turkish port at Ceyhan through Iran. Since the same could be achieved through Georgia, while the U.S. vehemently opposed any pipeline plan through Iran, that plan was never discussed for a long time.

The U.S. showed a strong anti-Iranian activity when Iran proposed a much less attractive option of oil transportation than the swap operation – a pipeline plan from Baku to the Persian Gulf. There were no strong commercial pluses of the proposed plan. It was admitted by Richard Morningstar, the special adviser to U.S. President and State Secretary: “We have not had any real pressure from any company to build a pipeline through Iran. I believe that is because, from a commercial standpoint, the companies recognize that the main pipeline should go in an east-west direction and that it does not make sense to make transportation of energy resources from the Caspian region dependent on a competing exporter such as Iran”.<sup>47</sup> In a traditional style of the American diplomacy to overkill the bear, the U.S. continued giving strong statements against the Iranian option which was among the weakest anyhow. Just when the talks began about the relaxation of the U.S.-Iranian relations, there were unequivocal statements from the U.S. officials reiterating the containment strategy towards that country. “But we have not changed our policy on energy co-operation with Iran. We remain opposed to investment in Iran’s energy sector and the construction of pipelines to, from, or through Iran”, would say the U.S. ambassador John Wolfe in the year 2000 even after the MEP was chosen to be the Baku-Ceyhan route.<sup>48</sup>

In 1998, in the year of the presidential elections (11 November 1998) in Azerbaijan, the Azeri government started strange games with Iran, which gave hopes to the latter about the selection of the Iranian option for the pipelines. By then it was obvious that the Iranian option was weak, but the official line gave strange hopes to the Iranian option. On 17 November 1998 the Azeri parliament formally rejected all the Iranian options.

The dashed hopes of Iran led to the immediate actions of retaliation. On 10 December 1998 Iran informed Azerbaijan that it stopped buying its petroleum products next year. That was a strong blow to the export of Azerbaijan since Iran was the Azerbaijan's largest consumer of oil products, accounting for \$180 million in exports. On 14 December 1998, Iran signed contracts with Royal Dutch/Shell and Lasmo Plc to explore for oil in the Caspian. The contracts included the several Azeri oilfields in the South of the Caspian. In 1999 Iran made an official claim in the Caspian, rejecting the previous Soviet-Iranian border in the Caspian.

Since that time on, the relations between Iran and Azerbaijan developed in a deteriorating line. The latest news were that Iran rejected the compromise proposals of the Russian Foreign Ministry on the Caspian status (Baku supported it) and carried out aggressive actions in the Caspian to support its claims. "In mid-July, Azerbaijani media reported that three Iranian ships had entered Azerbaijani territorial waters and removed a navigation marker buoy that designates the border between Azerbaijani and Iranian territorial waters. Two days later, an Iranian helicopter violated Azerbaijani airspace to check whether the buoy had been returned to its original position. The Azerbaijani National Security Ministry formally protested those actions".<sup>49</sup> On 15 August 2000 the Azeri Defense Minister Safar Abiyev received the Turkish Delegation headed by Erdal Bucagin, counter-admiral of the Turkish naval forces and thanked him "for the act of passing a patrol boat to Azerbaijan by Turkey".<sup>50</sup> It is unclear, yet, how far Iran will carry this confrontation with Azerbaijan.

#### *Decision on Baku-Ceyhan Pipeline*

The decision on defining the route for the MEP of the Azeri oil that had been delayed since 1997 was finally undertaken in November 1999. By that time, the situation in Chechnya did not allow Russia to suggest the Baku-Novorossiysk as a viable alternative and the relations with Iran, in the light of the latter's recent claims in the Caspian did not promise any positive result for the Iranian option



either. It was a good timing for the Turkish option. On 18 November 1999 the heads of states of Azerbaijan, Turkey and Georgia signed an agreement on the Baku-Jayhan pipeline at the presence of U.S. President Bill Clinton. At the same arrangement, an agreement was signed on the Trans-Caspian gas pipeline by the representatives of Azerbaijan, Turkmenistan, Georgia, Turkey and the U.S. It was a big success for Turkey and a safe arrangement for Azerbaijan.

However, there were certain economic challenges to the Baku-Ceyhan pipeline. The pipeline was to be 1994 km and consequently be a very expensive project. Despite the governments of countries signed an agreement on the Baku-Ceyhan pipeline, it were the companies that had to pay for the construction of that line. Therefore, the project should be commercially feasible. The initial estimates that the construction cost of that line might rise up to \$4 billion made the Baku-Ceyhan a doubtful commercial enterprise. The governments of Turkey and Azerbaijan had been urging that the construction cost for the Baku-Ceyhan would not exceed \$2.4 billion. The Turkish government gave official guarantees that the government estimates about the construction costs of the pipeline section in Turkey were correct (the figure was \$1.4 billion). The Baku-Ceyhan agreement had a special provision obliging the Turkish government to subsidize any costs related to the construction of the Baku-Ceyhan pipeline exceeding \$1.4 billion in its territory.

Another commercial difficulty was related to the oil reserves needed for the Baku-Ceyhan line being operational. Estimated 6 billion barrels of oil reserves are needed to serve that line. However, Azerbaijan does not have that much of discovered resources, yet. The idea behind Baku-Ceyhan had always presumed the later inclusion of the Kazakh oil into the project. Russia managed to persuade Kazakhstan off (Caspian Pipeline Consortium is planned to build up and maintain the line of Kazakh oil export through Russia to Novorossiysk). However, after the discovery of the Kashagan oilfield Kazakhstan has returned to the discussions on joining the Baku-Ceyhan pipeline plan. Russia has renewed its pressures on this country and it remains unclear whether Kazakhstan will be able to join Baku-Ceyhan or not. The settlement of the Azeri-Turkmen dispute over the

Kapaz (Turkmens call it Serdar) oilfield might make up the necessary amount of reserves to serve the Baku-Ceyhan, however, no prospects of settlement of that dispute is seen in the near future either. In these circumstances Azerbaijan seems to rely on the discovery of new oil reserves by the time the Baku-Ceyhan becomes operational. Officially it should be ready by the year 2003.

Among the political problems related to the Baku-Ceyhan pipeline, one might again point at the resentment coming from Russia and Iran. During the ceremony of the ratification of the Baku-Ceyhan agreement by the Georgian Parliament, the Georgian speaker Zurab Zhvania said that “for the right to take part in the project Georgia had to pay by two acts of terrorism against the president”.<sup>51</sup> The Georgian opposition made no doubts left that the speaker meant the provocations directed by Russia. The similar speech was made by the Azeri President Heydar Aliyev, when he pointed at the third parties which were trying to ‘obstruct’ the Baku-Ceyhan arrangements.

Aside from the threats coming from the regional powers, Azerbaijan also had to face the complications stemming from its landlocked position. Georgia attempted to use its monopoly over the transit routes already a month after signing the Baku-Ceyhan agreements and it demanded higher tariffs than agreed. On 23 March 2000 Azerbaijan had to make a compromise and give its own share of transit fees to Georgia. The pre-signing comment of the President of Azerbaijan H. Aliyev was: “However, Georgia has been in need of higher tariffs and we have nothing to do but make concessions”.<sup>52</sup> There was another comment to the issue shortly before the concession, the comment made by the vice president of State Oil Company of Azerbaijan Republic, the son of the president Ilham Aliyev: “We can not allow that the uncertainty around implementation of Baku-Jayhan project lasts forever, and therefore need to start up the activity towards transportation of Azeri oil via the Iranian territory”.<sup>53</sup> Anyhow, if the incidents of dictating the terms of co-operation form a trend in the Georgian policy, transit from Iran to Turkey would become a reasonable future alternative for easing the transit monopoly over the transportation of Azeri oil and gas. Of course, that would require a prior improvement in the relations between Iran and Azerbaijan.

*Trans-Caspian Gas Pipeline (TCGP) vs. "Blue Stream" Plan*

An important gas transportation agreement was signed at the OSCE Istanbul summit between Turkey, Azerbaijan, Turkmenistan and Georgia and the U.S. in November 1999. The participation of the latter in the agreement gave additional political weight to the agreement. The agreement envisioned a gas pipeline construction under the Caspian Sea that would link Turkmenistan and Azerbaijan and further continue in parallel to the Baku-Ceyhan oil pipeline until it was linked to the Turkish gas system. Commercially, it would be an expensive project worth \$2 billion for a pipeline stretching for 2000 km.<sup>54</sup> However, the fact that it would go in parallel with Baku-Ceyhan oil pipeline would cut down the maintenance costs. The most important factor, however, would be something else: The Trans-Caspian Gas Pipeline would open the way for another trans-Caspian pipeline – oil pipeline from Kazakhstan to Baku and then Ceyhan. If to accomplish the work on the Trans-Caspian gas pipeline, the next pipeline would just run in parallel to it and would have the reduced costs. The political implication of that would be a grand network of energy pipelines that unite Turkey, Azerbaijan and Central Asia bypassing Russia and Iran. The U.S. officials had been actively lobbying for the project. The very fact of the U.S. participation in the agreement was an obvious indicator for that.

Directly after the parties signed the Trans-Caspian Gas Pipeline (TCGP) Agreement, Russia launched a program to destroy the project. The weak point of the TCGP was Turkmenistan, which had two problems, one being vulnerability to Russia, the other one related to the personal instability of the Turkmen leader, Saparmurad Niyazov. That gave Russia a chance to propose an alternative gas project, called "Blue Stream". Since both projects were aimed at capturing the same market in Turkey, they could not be both successful at the same time. The Russian government managed to secure a loan agreement with a consortium of Italian and German banks for the "Blue Stream". Meanwhile, the Gazprom of Russia (translates as Gas Industry Corporation) started negotiations with Turkmenistan regarding a long-term contract for the import of large volumes (about 50 billion cubic metres annually) of Turkmen gas into the Russian system.

The U.S. and Turkey had also been actively negotiating with Turkmenistan regarding the TCGP project. In order to smooth the political problems the U.S. designated the ambassador Richard Morningstar to mediate the Azeri-Turkmen dispute over the Kapaz/Sardar oilfield. Other top U.S. senior officials as the ambassadors Jan Kalicki and John Wolfe were involved in frequent contacts with the Azeri and the Turkmen officials. In the middle of the negotiations, President of Turkmenistan, Saparmurad Niyazov declared that he would agree to start the work on TCGP if it carried only the Turkmen gas to Turkey, while Azerbaijan could carry a maximum of 5 billion cubic metres of gas annually (out of the total capacity of 50 billion cubic metres of the TCGP line) through that line. It was an unusual situation, when a landlocked country tried to dictate the terms (totally unequal terms) to the country of the transit. Azerbaijan demanded an export quota of 15 billion cubic metres of gas, which got rejected by Turkmenistan. After the discovery of a large deposit of gas at the Shahdeniz field, Azerbaijan could build and maintain its own gas pipeline to Turkey. According to the former president of the AIOC, Terry Adams, the Turkmen participation in the TCGP project would help Azerbaijan to cut down the initial costs of building the pipeline (for about \$ 700 million) before Shahdeniz field was ready to export large volumes of gas and that in the worst case Azerbaijan could successfully build and export its own gas without any Turkmen participation. Taking into account the commercial and political factors Turkmenistan did not seem to have any strong grounds for dictating terms to Azerbaijan.

However, the Turkmen leader thought the other way around and went ahead threatening to join the Russian “Blue Stream” Project. Turkmenistan also rebuffed the mediation of the U.S. representative on the dispute with Azerbaijan over the Kapaz/Sardar field. Azerbaijan offered a joint development option to Turkmenistan, which was rejected by the latter. Laurent Ruseckas pointed out that in mid March 2000 Turkmenistan “made a proposal to Baku for joint development of the field with Azerbaijan and Iran, presumably in connection with some broader agreement regarding the Caspian title issue. The inclusion of Iran in the Turkmen proposal is curious,

particularly given that Kapaz is well north of the Iranian sector even as defined by Tehran itself. This can be best explained as a Turkmen effort to team up with Iran against Azerbaijan in the continuing dispute over the division of sub-sea resources. In any case, the proposal appears to have been flatly rejected by Azerbaijan, which feels less pressure to resolve the issue than Turkmenistan".<sup>55</sup>

That kind of manoeuvre by Turkmenistan forced Azerbaijan to contemplate building the gas pipeline on its own. On 29 July Aleksey Gostiridze, president of the Georgian International Gas Corporation told at the press-conference that Azerbaijan was "planning to begin construction of a gas pipeline for Shahdeniz gas transportation via the Georgian territory to Turkey to the European markets".<sup>56</sup> In March 2001 Azerbaijan signed a gas export agreement with Turkey during the visit of the Azeri president Heydar Aliyev to Turkey. The agreement secured a stable customer for the Azeri gas field in Shahdeniz. "Turkey is to pay \$2.5 billion for gas to be bought for 15 years. According to the agreement, the first 2 billion cubic metres of gas are expected to arrive in 2004. The volume of gas exported from Azerbaijan will rise to 6.6 billion cubic metres a year in 2007".<sup>57</sup>

By now it is clear that Azerbaijan will continue building a gas pipeline to Turkey, regardless to the Turkmen position. In case if Turkmenistan remains stable in its support for the TCGP, it will be linked to the pipeline from Azerbaijan to Turkey, if not then Azerbaijan will still have a pipeline to market its gas.

## Conclusions

### *Prospects for a Legal Solution to the Problems of Landlocked States*

The landlocked situation dictates regional arrangements, which are aimed at facilitating the access of the landlocked country to the outer world. Differently from the majority of the OPEC members, the geographical specifics of Eurasia create a number of landlocked regions, successful solution to which can be found only through the collective approach. The European Energy Charter (initiated in 1991) followed by the Energy Charter Treaty (1994) were the biggest efforts

of the continent's states to find a legal solution to the current situation. Secure energy investment, energy trade, freedom of transit, effective dispute settlement for investment, sustainable development and energy efficiency were the declared principles of the documents.

The documents which were adopted to provide for the development of the energy business in the member countries also contained significant provisions on transit issues. Article 7 of the Energy Charter Treaty, devoted to the transit problems contained the following provision: "Each Contracting Party undertakes that its provisions relating to transport of Energy Materials and Products and the use of Energy Transport Facilities shall treat Energy Materials and Products in Transit in no less favorable a manner than its provisions treat such materials and products originating in or destined for its own Area, unless an existing international agreement provides otherwise".<sup>58</sup> Of course, a soft legal document is not a solution to the problem, but legal documents, aimed at institutionalizing the problems of the landlocked countries with clearly defined rights and obligations of the countries using and providing transit constitute a positive beginning for addressing the situation of the landlocked countries. The fact that 50 states have already signed the Energy Charter Treaty (Russia has also signed, but has not yet ratified it) shows that there is a possibility to solve the problem on a legal dimension.

### *Challenges of the Caspian Region*

The specifics of the Caspian region that make it different from the other similar regions of the world is that after a long time of accessing the world through the Russian metropolis, the countries in the region generally find the old channels of access unreliable and unsafe, while the attempts to diversify the channels of access meets the resistance from Russia. The latter perceives any attempts of using alternative channels to be a plot against the existing status quo.

The Caspian region as such never existed as a single organic region in 20<sup>th</sup> century. In the beginning of the century following the collapse of the Russian Empire, there was a brief era of pan-Turkism, the most dramatic moment of which was the participation of the

Turkish volunteers (the former Ottoman Army officers) in the anti-Russian movement in Central Asia. Following the defeat of pan-Turkism, the Russians managed to bring all the Caspian nations, except Iran, under the umbrella of one single state. However, even under that umbrella the contacts between Caucasus and Central Asia had been quite weak.

After the collapse of the USSR the idea of the Caspian region revived in the search of alternative access to the outer world for the landlocked countries of Central Asia. The old idea of pan-Turkism came to life again confronting the visions of Russia and Iran about the Caspian region. The Caspian Co-operation Council initiated by Iran without the Turkish participation failed to be a successful venture, while Turkey has been unsuccessful to see Iran and especially Russia digesting its view of the Caspian region's future.

The legacies of the Cold War, such as the East-West contradictions and the ideological conflict between the Western Liberalism and the Iranian Fundamentalism also influence the possibilities for a desirable outcome in a negative way. The power of such factors reflected itself in the pre-determined negative attitude of Iran and Russia toward the oil business of the Western companies in the Caspian.

Thus, the establishment of pipeline routes in the Caspian region becomes a highly politicized issue. The brightest example of the politicization of the pipeline problem is that despite being an economic issue (at least nominally) the decisions for the pipelines were hardly decided by any commercial factor. The Baku-Ceyhan oil pipeline and the Trans-Caspian gas pipeline were commercially less feasible than any other alternative project.

### *Chances of Azerbaijan*

Situated in South Caucasus, Azerbaijan is luckier than its Central Asian counterparts. The proximity of Turkey, the political position of Georgia allowed Azerbaijan to avoid the dependence from Russia. Nevertheless, Kazakhstan, for example, had to agree to the establishment of the Caspian Pipeline Consortium (CPC) in 1992 with

Russia and Oman (it seems that Oman's participation was pro-forma) for building a 1600 km long-pipeline, that would connect it to the Russian energy system. After 1996, when the CPC had to accept a few commercial companies as full members in order to finance the project Russia still controlled 44% of the shares (24 % belonged to the Russian government, 12.5% to LukOil company and 7.5% to RosNeft).<sup>59</sup> Differently from any Central Asian country Azerbaijan had and continues having more chances to shape its future.

As a landlocked country, which aims to maintain a developed oil industry Azerbaijan's pipeline strategy has been aimed at establishing safe, durable and commercially viable pipelines for the export of its oil and gas. There was a paradox in achieving that goal. On the one hand, the pipelines running through the countries, which were against the oil business in the Caspian could not be regarded as safe. On the other hand, exclusion of those countries from the oil and pipeline projects would contribute to further alienation in the region, with negative consequences. Since 1994, Azerbaijan has been conducting a complicated policy in order to balance between these two extremes. And the result of that policy is symbolic: One pipeline for the early oil passing through Russia, which is most of the time non-operational, one operational early pipeline policy through Georgia and the planned main export pipeline passing through Georgia to Turkey. In a way, the result was logical, since the pipelines should transit the countries, which share the most stable understanding with each other in order to avoid a damaging conflict.

### *Prospects for the Future*

Energy resources, oil and gas pipelines play an important role in shaping the future of the region. The path of the oil & gas pipelines would reflect a rough plan for the directions of the future integration in the region. Jan Kalicki, adviser to the U.S. State Department of Trade on questions of Energy and Co-operation with the Newly Independent States expressed that idea in a clear message: "*We are going to witness strengthening of ties between producers and consumers of hydrocarbons in 10-15 years, as well as further*



*integration at all levels of Eurasian projects in sphere of energy. The Baku-Tbilisi-Ceyhan and the Trans-Caspian pipelines may be exemplified in this connection”.*<sup>60</sup>

The American position to support the independence of the newly independent states in the Caspian region is one among the three declared priorities of the U.S. (the other two being the U.S. commercial involvement in the Caspian projects and the diversification of world oil supplies to reduce dependence on Persian Gulf oil).<sup>61</sup>

Interpreting the U.S. interests in the region (which is sometimes identified as the same with the Western interests in the region), some political observers seem to rush to oversimplified conclusions. “The United States appears to have begun supporting the policy to turn Kazakhstan into a Saudi Arabia of Central Asia, and Turkmenistan and Azerbaijan into positions similar to that of Kuwait”, wrote Manabu Shimizu.<sup>62</sup> The fact that the situation is quite different in the Caspian region than in the Gulf region does not need to be proved with too many arguments. It is obvious that the author drew the conclusion being impressed by the large area of Kazakhstan in a map and the small (in the case of Azerbaijan even tiny) size of other states in the region. To give just one example to show how different the proportions of states are in the Gulf and in the Caspian region: the biggest country of the region Kazakhstan has only 15 million of population, while Azerbaijan has 8 million. If to add to that list the significant Russian minority in the north of Kazakhstan, which is able to split it into two any time and the large shared border with Russia, it is clear that Kazakhstan will never be able to be the policeman of the U.S. in the region as the Saudi Arabia is.

On the other extreme, there are commentators, which make a point that the U.S. has no vital interest in the Caspian region and it should not involve itself in a conflict with Russia over Central Asia, since “the United States has neither the reason, power, nor the will to replace a largely vanished hegemony in a Caspian region with a hegemony of its own”.<sup>63</sup> In so many words, the author suggests that the U.S. should let Russia dominating the region in order to achieve or maintain stability.

While it is true that the Caspian region is unlikely to replace the importance of the Middle East reserves for the U.S. and Western Europe, the Western assistance to the Caspian region still deserves a merit. In 1991-1992 when the West had been actively engaged in rescuing the Eastern Europe from the Russian sphere of influence, one might say that Bulgaria, or Romania, or Slovakia represented no vital interests for any of the Western countries. After all, it wasn't the economic importance of the Eastern European countries that attracted the Western support. The countries of Western Europe and the U.S. were motivated by the security reasons and were cautious to have any precedent of the forced political-military domination in their neighborhood. It was the danger of the Russian practice of expansionist policy that motivated the Western Block. The Russian threat was perceived so seriously that plans of building a sanitary cordon were being proposed to protect the independence of the Eastern European states. According to one of the plans proposed by the former U.S. ambassador John Maresca the cordon against Russia should run along Baltic republics-Ukraine-Belarus-Trans-Caucasus-possibly Central Asia, where the Western block should strengthen the independence of the newly independent states. Since 1992-1993 there had been a certain relaxation in the policies of Russia, which brought up new ideas about the inclusion of Russia to the regional integration schemes or the economic development programs in the post-Soviet region. However, all those proposals seem to have been based on the principle that the Russian participation in regional arrangements should be done according to the rules accepted by the rest of the civilized world, rather than those set by Russia itself.

Among the recent proposals of the Western World one can name "*A Stability Pact for the Caucasus. A Constructive Document of the CEPS Task Force on the Caucasus*", prepared by Center for European Policy Studies of the EU. The proposals envision the trilateral co-operation of the EU, Russia and the U.S. on the global political level, Russia, Iran and Turkey on the regional level, Azerbaijan, Georgia and Armenia on the local level in order to establish peace and prosperity in the region. Judging by the ongoing hostilities in Chechnya at the moment and the large deposits of oil

discovered newly in the Russian sector of the Caspian, which could be enough to provide for the economic prosperity in at least the coastal areas of Russia (Daghestan and Chechnya), Russia should have a strong intensive for peace and stability in the region – something which can not be reached without rejecting the Cold War traditions of policy making.

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## **Х ц л а с я**

### **ЪОБРАФИ ГАПАЛЫ ЮЛКЯНИН НЕФТ ВЯ ГАЗ КЯМЯРИ СТРАТЕЭИЙАСЫ: АЗЯРБАЙЪАН ТЯЪРЦБЯСИ**

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Хязяр щювзяси XIX ясрдян нефт йатаглары иля дцнйанын диггятини чякиб. XIX ясрин ахырларында Бакы нефт щасилаты дцнйа нефт щасилатынын йарысыны, Русийа нефт истещсалынын 95%-ини тяшкил едиб. Икинъи дцнйа мщчарибяси дюрцндя Совет нефтинин 71%-и (1941-ъи илин мялуматына ясасян) Бакыда истещсал олунуб.

Дцнйанын дизяр бюлэяляриндя нефтин кяшфи Хязяр щювзясини арха плана кечирся дя, ССРИ-нин даьылмасы иля бу реионун енержи ящямиййати йенидян фювгяладя ящямиййат кясб етмяйя башлайыр. Бир-биринин ардынъа Азърбайжан, Газахыстан, Тцркмянистан, даща сонра ися Русийанын Хязяр секторунда ири нефт вя газ йатагларынын кяшфи елан едилир. АБШ Дювлят Департаментинин вердийи илкин баяанатда Хязяр щювзясинин енержи ещтийатлары 200 млрд. барел, йахуд дцнйа нефт ещтийатынын 20%-и щяъминдя эюстярилир. Сонрадан бу оптимист прогнозлар даща реал рягямлярля (40-60 млрд. барел, йахуд дцнйа нефт ещтийатынын 20%-и) явязлянся дя, реион яввялки ящямиййатини горуйуб сахлайыр.

Ачыг дянизя – океана чыхышы олмайан Хязяр реионундан щасил олунан нефт вя газын дцнйа базарына чыхарылмасы

нювбяти сынаг мярщялясиня чеврилир. Гярб юкяляри-Тцркийя-Азярбайъан-Орта Асийа цфцги эеосийаси хятти иля Гярб бизнесинин пост-Совет мяканына ирялиляйишини янэяллямйя чалышан Русийа-Иран шагули эеосийаси хятти арасында рягабят гызышыр. Бу рягабят нефт-газ кямярляринин чякилиши лайищяляриндя дя юзцнц бирузя верир. Русийа вя Ираны йан кечмякля енержи базарына чыхышы тямин едян Багы-Супса, Багы-Тбилиси-Ъейщан нефт кямярляри вя Транс-Хязяр нефт вя газ лайищяляри рягиб лайищялярля – енержи базарына чыхышы Русийа вя йа Ирана баълайан Багы-Новороссийск, Хязяр Кямяр Консорсиумунун Газахыстан нефтини вя газыны Русийа енержи системиня бирляшдирян мцхтялиф лайищяляри, ян нящайят Транс-Хязяр газ лайищясиндя Тцркмянистанын иштиракыны гейри-мцмкцн едян ёМави Ахынё лайищяси иля тоггушмададыр.

Бу эеосийаси гаршыдурма тьякъя игтисади лайищялярин рягабяти иля мящдудлашмыр. 1993-ъц илдя баш вермиш дювлят чеврилиши, 1994 вя 1995-ъи иллярдя Азярбайъанда йаранмыш сийаси гаршыдурма рясми Багынын нефт сийасятиндян наразы юкялярин – Русийа вя Иранын эюстярдийи сийаси гыъыгланманы якс етдирирди.

Бу мягалья йазыларкян, Хязярдя Иран-Азярбайъан гаршыдурмасында кяскин инсидентляр мцшащидя олунмамышды. Бу илин ийун айындан башлайараг Иранын Хязярдя эцъ тятбигиндян беля чякинмйяъяйини бяйан етмяси, Тцркийянин ися бунун ардынъа юз щярби тййарялярини Багыа эюндяриб, онларын нцмуняви учушларыны тьякил етмяси йаранмыш вязиййятдя кифайят гядяр мцнагишя потенциалынын олдуьуну эюстярир.

Горхмаз Ясэровун бу елми арашдырма ишиндя Хязярдяки нефт бизнеси иля резюндакы эеосийаси мараглар арасындакы ялагяляр дяриндян тядгиг олунур, йаранмыш вязиййятин мцмкцн гядяр аз мцнагишяли щялл йоллары арашдырылыр.