PERCEPTIONS
JOURNAL OF INTERNATIONAL AFFAIRS

March - May 1998 Volume III - Number 1

CASPIAN UNCERTAINTIES:REGIONAL RIVALRIES AND PIPELINES

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In the next century, the Caspian Sea and the regions adjoining it could become the largest supplier of oil and gas to Asia and Europe. The oil potential of this colossal territorial region is so significant that the analytical centres of a series of the world's large oil refining companies consider it to be a more long-term than the unstable Persian Gulf. According to different evaluations, oil reserves under the depths of the Caspian amount to more than 13 billion tonnes.l

With the collapse of the Soviet Union, the Caspian-Caucasus region, which was previously politically and commercially inaccessible to the western oil industry, is now opening up to foreign investment. Current industry estimates put Caspian oil reserves at up to 200 billion barrels, more than any region outside the Persian Gulf. Such reserves put the region on a par with Saudi Arabia, and it is expected that the Caspian will become the second most important source of oil for the West in the next century. Since 1991, the oil rush to the Caspian has been underway. Oil giants from around the world are racing one another in efforts to explore and develop the hydrocarbon resources of the Caspian Sea region. The quest for Caspian oil is often cast as a replay of the 19th century 'Great Game', in which the British and Russian empires duelled for influence in the region. More than anything, Caspian oil is putting surrounding impoverished countries and their neighbours at the heart of the world's geostrategic map after seven decades of isolating Soviet rule.

HISTORY

From antiquity to the mid-19th century, the Caspian-Caucasus was one of the best-known oil regions in the world. Exploitation by collection from springs and shallow pits was well noted in the earliest historical records. Considerable commerce was carried on in the area, providing oil for cooking and medicinal purposes.

Before the arrival of the Russians, petroleum extraction was very primitive. For centuries petroleum traders had to extract the petroleum with rags and buckets. The Tsarist government anticipated the modern petroleum industry when it drilled a well for oil at what is now the giant Bibi-Eibat field in 1871.

It was the end of the 19th century before the area had its first contact with the Western capital. The rich oil potential in the region attracted important foreign companies. By the late 1800s, two competing families came to dominate Baku's oil industry. The Nobel brothers arrived on the scene first, to be followed by the French branch of the Rothschild family. In 1898 Russia became the largest oil-producing country and held this position until 1902. At the beginning of the 20th century, 50 per cent of the world's oil was produced in the Caspian region.

During the Civil War which followed the fall of Tsarist Empire and the setting up of a revolutionary government in Russia, the Caspian-Caucasus oil region endured a period of turmoil until the Bolsheviks seized control in 1920. When the Stalin regime announced the lst Five-Year Plan in 1927, the state assumed full responsibility for central planning, determining the sites, the method of extraction and the amount of production, as well as modes of transport.

In 1928, oil production surpassed the former 1901 peak. The next year, seismic-refraction methods were applied in the Grozny area of the North Caucasus resulting in even sharper increases in oil output. The oil industry grew substantially during the lst and 2nd Five Year Plans. Most of the production came from the Baku-Caucasus region. During the Second World War, Hitler sought to capture Baku, but his army was defeated before reaching the target.

After the war, major discoveries were made in several parts of the Volga-Ural region and in the North Caucasus. Achievements during the 4th, 5th, and 6th Five-Year Plans were impressive. New production regions accounted for most of the increase. By 1958, the Caspian-Caucasus district accounted for only 28 per cent of Soviet production. The growth in oil production continued throughout the following years, and in 1974, Soviet oil production became the largest of any nation in the world.

The post-Soviet Caucasus is still considered as having enormous oil potential. In addition to the Azeri-Chirag-Güne_li fields, there are other fields of substantial reserves, both offshore and onshore, such as Shakh Deniz, Karabakh, Muradkhanli, Surakhany Sands, and various others.

If properly exploited, the oil resources in the Caucasus could become the driving force behind a broad-based economic development. Combine increasing demand with the declining production in the North Sea and Alaska's North Slope, and oil demand and oil prices are set for some dramatic growth. The new strategic cockpit, the most versatile energy source on which the great economic powers will depend in the coming century, lies in the heartland of Eurasia, the Caspian-Caucasus region.

This happens to be the region where Russia, Turkey and Iran, and the Islamic world with its Shiite and Sunni sects and different religious and cultural traditions all meet. The most powerful US and European energy corporations have their deals, their drills, and their personnel in place. After six years of tangled negotiations, the early winners and losers are emerging in this high-stakes game of money and politics that includes such heavyweight players as the American, Russian, Iranian and Chinese governments, along with the world's biggest oil companies. When Alfred Nobel came to the region back in the late 19th century, he commented that in this region 'oil, blood and politics were completely intermingled'. Today it seems that the situation has not changed much in the course of one hundred years.

PRESENT SITUATION

The largest reserves of explored oil in the region are concentrated near the shores of Azerbaijan and Kazakhstan. Almost all of Azerbaijan's oil reserves are located in the Caspian Sea shelf. Deposits on the Russian part of the shelf are not developed and will need further exploration in order to verify their worth. The coast of Turkmenistan is the least well explored of all. The five states of the Caspian Sea basin lack adequate resources to independently explode and exploit the reserves of oil within their territorial boundaries. It seems that they will continue to be in need of foreign investment for the foreseeable future.

Among the nations of the Caspian Sea region, Iran possesses the largest total oil reserves. Yet it is least interested in the immediate development of the Caspian Sea oil deposits. Russia has a large oil complex with a powerful export sector and a reasonably well-established system of pipelines. As is the case with Iran, Russia does not have to accelerate investment or production in its sector of the Caspian Sea. Western Siberian oil and gas fields mean that Russia can afford to wait some time before investing further in the Caspian region.

Turkmenistan is less concerned with oil deposits than natural gas. It has large reserves of natural gas, and at present is more concerned with exporting this gas and establishing an infrastructure that would allow this to take place. There are some long-term plans to establish a joint venture with Russia, Iran and Turkey and to explore and extract oil deposits in Turkmenistan's part of the Caspian Sea.

There are, at present, two main topics which need to be investigated: the determination of the

Caspian's legal status and the ownership of oil deposits, and oil pipelines and transport facilities. Many issues around them have now become a question of intense international rivalry between the regional powers of Russia, Turkey and Iran. The complex relationship between these three states finds its reflection in their respective stances regarding the status of the Caspian, and in their rivalry over the future location of the pipelines. Superimposed over the activities of the Caspian states and rivalries amongst the other regional powers are the global geo-political objectives and economic requirements of the United States, other leading Western countries, China and the large scale multi-national corporate organisations.

THE AZERBAIJANI OIL SAGA

A number of agreements were signed within the last three years concerning hydrocarbon extraction from the Caspian Sea, off the coast of Azerbaijan. The first and most important one was signed on 20 September, 1994, in Baku, between AIOC (a consortium of oil companies led by the British Petroleum Company (BP)) and the Azerbaijani state oil company, SOCAR. This eight billion dollar production sharing deal, the "contract of the century", was a thirty year contract that called for production of 80,000 barrels per day by 1997. AIOC expects to hit peak production of around 800,000 barrels per day early next century. The contract provided for the development of a number of offshore oil fields in Azeri and Chirag areas and also in the deepwater region of Güneşli.2 Other investors in this contract include American Amoco (17%), Pennzoil (4.8%), Unocal (9.5%), Exxon (5%), Russian Lukoil (10%), Norwegian Staatoil (8.5%), Japanese Itochu (7.45%), British Ramco (2%), Turkish TPAO (6.75%), Saudi Arabia's Delta (l.6%), and the Azerbaijani state oil company, SOCAR, (10%).3

The negotiations for this "contract of the century" date back to 1990 when Azerbaijan was still a republic of the former Soviet Union.4 As a result of these early negotiations, SECOR was about to sign a contract with the international consortium in 1993. The consortium at that stage did not include Russia. When the nationalist president of Azerbaijan, Abulfaz Elçibey, was overthrown in June 1993, the negotiations were interrupted. Heidar Aliev, the new leader of Azerbaijan, re-negotiated the contract and eventually allocated ten per cent of AIOC to the Russian oil company, Lukoil . Aliev might have hoped that Moscow would be more favourably inclined to the idea of Azerbaijan's independent exploitation and marketing of its Caspian Sea oil resources.5

Between June 1995 and January 1997, Baku signed four more contracts with various international companies. In all these contracts, Russian companies are either founding members of the consortiums or expected to join at a later date. In June 1995 Contract for Karabakh, Russian companies received the largest share of the consortium. This agreement will develop the offshore Karabakh field which contains 85-120 million tonnes of oil.6 Lukoil received a ten per cent share in the Shah Deniz contract, which was signed on 4 June, 1996.7 Another contract was signed with a consortium of US, Japanese and Saudi Arabian companies on 14 December, 1996. This agreement concerns the development of the Dan Ulduzu and Ashrafi offshore fields. Russia is not a direct participant but Baku has expressed its opinion that Moscow should acquire a share in the future.8 The contract for the Lenkoran-Talysh Deniz was signed in January 1997 between SOCAR and a group of French companies. Other parties, including Lukoil, are expected to join soon.9

LEGAL STATUS OF THE CASPIAN SEA

A considerable amount of oil is concentrated in the shallow shelf of the Caspian Sea. Therefore, it is important that the legal definition of the sea itself be clear. There has been disagreement over the jurisdiction of the Caspian Sea and control of its economic zones.

There is no direct historical precedent, which could help to illuminate a solution to the question. There are a number of treaties, in the first instance between Russia and Persia and in the second between the Soviet Union and Iran. Most of these were about freedom of navigation, maritime activity and trade in the Caspian Sea. History certainly testifies to a superior Russian naval and military presence in and around the Caspian, with the Soviet-Iranian Treaties of 1921 and 1940 still operating to Russia's advantage today.10 However, these treaties cannot be used to define the status of the Caspian, for these documents only applied to navigation and fishing, and not to the problem of the exploitation of mineral resources.

The long-standing position of the Russian Federation is that the Caspian is an enclosed body of water with a single eco-system and represents an object of joint use for all the Caspian countries.11 Accordingly, the Caspian should not be classified as an "open sea" possessing the properties of a "continental shelf" and an "exclusive economic zone".12 In other words, the judicial norms relating to exclusive economic zones of coastal states drawn up by the 1982 United Nations Convention on Maritime laws are not applicable to the states bordering the Caspian. Russia, together with Iran, has adopted the 'enclosed body of water' approach to solve the problem of legal ownership rights. This method advocates the implementation of a 20-mile maritime zone. The sovereignty of the riparian states not only covers the maritime zone but also stretches upwards to include the air space directly above and downwards to the sea bed, including all the substances which are found on and beneath it.

Another main point in the Russian position concerns an exclusive economic zone which extends for a further 20 miles. In this zone the riparian states have sovereign rights over the preservation of natural resources, covering the seabed and substances lying beneath it. In the exclusive economic zone, all states, both riparian and those without an outlet to the sea, enjoy freedom of navigation and flight, the lying of cables or pipelines, and other activities of maritime usage, as defined by International Law. The remaining central part of the Caspian beyond the 40-mile limit, made up of territorial waters and an exclusive economic zone, is the common property of all the Caspian Sea states. This central area is to be placed under common control, with all the decisions concerning usage of this zone requiring agreement by all the Caspian states.

The Azerbaijani position differs from that of the Russian Federation in some important aspects. Azerbaijan champions the concept of the Caspian being a "border lake" and calls for the division of the Caspian into five state sectors. Accordingly, each sector will be considered and categorised as "territorial waters" belonging solely to the state concerned. If this position is accepted, the richest oil-bearing areas would be given to Azerbaijan and Kazakhstan, which supports this position whole-heartedly. The "border lake" proposal from Azerbaijan is based on current international practice with regard to the Great Lakes between the USA and Canada, and Lake Chad between Nigeria, Niger Chad and Cameroon. In this instance the Caspian would be considered as a "border lake" with contiguous states, to be divided into corresponding sectors with full sovereignty rights for the riparian states. The Azerbaijani proposal implies that within its own sector, each riparian state has exclusive sovereignty over biological resources, water surface, navigation, exploitation of the sea bed and deposits lying beneath it, plus other activities in conformity with the legislation of the riparian state. Azerbaijan is proposing another alternative to the question of the legal status of the Caspian, the concept of an "open sea". This proposal is based on the United Nations' Convention on the 1982 Law of the Sea, which came into force on 16 November, 1994. According to this proposal, each state is to have a 12-mile territorial water limit.13

Although Kazakhstan and Azerbaijan are allies over the status of the Caspian Sea, there are some differences in their respective positions. Kazakhstan's position opposes the "border lake" or "open sea" variants. Instead, Kazakhstan has come forward with another proposal, which envisages the Caspian being subdivided into economic zones based around a central line, which is equidistant from points on opposing shorelines.

Generally speaking, the Turkmen approach has supported Russian position. Turkmenistan states that the Caspian Sea is unique, thus current common practice cannot apply. Each state should have its own border and fishing zone and a defined section of the shelf to exploit the mineral resources.The width of this zone should be determined by consultation with all the Caspian states. The remaining part of the Caspian should be determined by the principle of joint exploitation.

The other Caspian state, Iran, has maintained a reserved position with regard to the legal status of the Caspian Sea. Iran, in general, envisages itself as a regional super power. The Iranian interest has been to try and preserve the current balance of power in the region. Iran is not very enthusiastic about national division of the sea. To a certain extent, the positions of Russia and Iran could be brought closer by a mutual threat of international oil companies penetrating the Caspian Sea area. The exclusion of Tehran from the September 1994 'contract of the century' has made Iran a natural ally of Russia on the joint ownership of the Caspian's resources. Iran invited Russian Lukoil to participate in a joint venture to extract oil from its part of the Caspian shelf. Lukoil rejected the proposal on economic grounds.14

To sum up, there are two main propositions in general terms for deciding the legal status of the Caspian. Russia and Iran formally treat the Caspian as a giant lake, which represents an object of joint use for all five Caspian states. Azerbaijan, Kazakhstan and Turkmenistan treat the Caspian as a sea, which should be divided into sectors and developed separately. But they are divided over where the dividing lines should fall, with Turkmenistan laying claim to fields already being developed by the AIOC.

TRANSPORTATION AND PIPELINES

Political symbols come in many forms in the Caspian region, but few are quite so compelling as oil and natural gas pipelines. The issue of oil and gas transportation from the Caspian Sea region has now become an issue relating to the tight knot of regional rivalries, especially between Russia, Turkey and Iran.

The 'contract of the century' of 20 September, 1994, antagonised Moscow and Ankara, because two main alternative routes have been promoted by these two states. The present pipeline follows the line Baku-Grozny-Tikhoretsk-Novorrossisk, with a possibility of bypassing Chechnya to the east and joining Atyray-Novorrossisk pipeline at Komsomolsky. This Russian pipeline also requires the instalment of a 1,500 kilometre pipeline from the Kazakh Tenghiz fields, through Tikhoretsk to the Russian Black Sea port of Novorrossisk. This pipeline would join to the existing 1,400 kilometre Baku-Tikhoretsk pipeline, which would carry the Azeri oil from the Caspian. The current method of transportation from Novorrossisk is by tanker to world markets, through the Bosphorus.15

Turkey campaigned actively against the Russian proposed pipeline. The reason for this is probably more related to Turkey's geopolitical calculation than to the expected hard currency in royalties. If the new independent republics of Azerbaijan and Kazakhstan had to rely solely on the Russian pipeline, Ankara's hopes for improved ties with these states would be drastically frustrated. The Turkish government argued that the oil storage capacity at Novorrossisk is not sufficient to handle enormous amounts of Russian, Kazakh and Azeri crude oil. It was also mentioned that the existing Russian pipeline network should be upgraded or replaced to cope with the expected increase in output.16

As the main alternative to the Russian pipeline, Turkey proposed its own pipeline option, the Caspian-Mediterranean Pipeline. This pipeline too foresaw the transfer of the Kazakh oil to Baku, either by a pipeline through the Russian Caucasus or by a pipeline to be laid underwater, crossing from the Kazakh Caspian shores to Baku. From Baku, the combined Azeri and Kazakh oil would be carried by Turkish pipeline through Georgia, Armenia or Iran, and thence to Turkey's Mediterranean oil terminal at Ceyhan.17

Starting from Baku and ending in Ceyhan, the pipeline would run for 468 kilometres through Azerbaijan, 225 kilometres through Georgia and 1,037 kilometres through Turkey. If completed, the pipeline is expected to have a capacity of 45 million tonnes per year. A recent study report, prepared by a German team of experts and financed by the World Bank asserted that this figure could be raised in the future. International observers have expressed their belief that Turkey will take advantage of the pipeline by collecting transportation fees and buying crude oil at a lower price when the pipeline is put into operation.

Ankara decided to impose some restrictions on the use of Turkish straits by oil tankers. In part, this was done to increase the appeal of the Turkish pipeline proposal, but was also a result of genuine apprehension that the increased use of Novorrossisk would bring about heavy tanker traffic through

Turkish straits. The rules governing navigation in the straits were originally set out in the Montreux Convention of 1936. The Convention guarantees free passage in peacetime for vessels of any country carrying any cargo. When the Montreux Convention was signed, however, only a few hundred ships passed through the Straits. Now an estimated 50,000 ships use it annually. The average tonnage of ships is 19 times more than it was back then. The Bosphorus Straits are a zigzagging passage, whose blind turns, four strong currents, 12 changes of course, fog, and difficult weather conditions have led to hundreds of accidents over the recent years. The navigable passage is less than 200 yards wide, and ships share the water with ferries which carry an estimated l million people form one shore to the other every day. Ankara is stressing the danger of accidents, likely to damage life and property in _stanbul.

In March 1994, two vessels collided and 29 people died. Tonnes of oil poured into the Bosphorus and the resulting fire raged for about a week.18 After that incident, Turkey imposed a number of limitations on the passage of tankers carrying oil and inflammable materials through the Bosphorus and Dardanelles. The new navigation rules went into effect on 24 November, 1994. The new regulations require all vessels entering the straits to comply with the Turkish reporting system. According to this system, ships take on a qualified pilot, and all ships over 200 metres long navigate the area in daylight.19 Other countries, notably Russia, Greece and Bulgaria, filed objections to this regulation.20

In 1994, in order to cope with the potential threat of restricted access, Russia proposed to lay a pipeline (the Trans-Balkan Pipeline) from Bulgaria's Black Sea port of Burgas to the Greek Aegean Sea port of Alexandroupolis, which would enable Russia to by- pass the straits. The Trans-Balkan pipeline project has, however, been held up since 1994 owing to financial disputes between Russia, Greece and Bulgaria.21

Another alternative pipeline proposal is based on the transportation of Caspian oil through Croatia. Transneft, the Russian oil pipeline operator, has been holding talks with the Croatian oil company INA on the upgrading of a Croatian pipeline to transport crude oil from Russia to Central Europe via Ukraine. The Croatian pipeline option has the potential to enable Russia to use its existing export network and transport oil to the Adriatic.22

FUTURE SOLUTIONS

Of the five Caspian states, Kazakhstan and Azerbaijan have shown more interest than others in the immediate extraction and export of Caspian oil. In these two countries, the oil sector is the economic section with the biggest export potential. 1997 was a promising year for the Azerbaijani oil industry. Significant advancements were made in the production of oil and the construction of pipelines. On 12 November, the Azerbaijani International Operating Company, AIOC, produced its first offshore oil. The oil was transported from the Caspian to the Black sea via a pipeline that passes through Chechnya to the Russian city of Novorrossisk.23

While oil production is still relatively low, at only around five million barrels a year, when a main oil pipeline is eventually constructed, production is expected to climb to around 100 million barrels a year. One of the big questions, however, is what the route of the main pipeline will be and whether there would be one export route or multiple ones. Tensions between Russia and Chechnya make it unlikely that the pipeline will go through Chechnya. Almost 160 kilometres of this pipeline is to be on Chechen territory.

The prospect of a stoppage on the Chechen pipeline has made the idea of an oil swap with Iran a possible alternative. US companies, if they obtain an exemption from the embargo imposed by the US government on trade with Iran, could participate in such an exchange. With the possibility of a US dialogue with Iran on the horizon, more experts favour the idea of swapping oil, or even a pipeline through Iran.24

Many in the West now have the opinion that because of the many tensions in the region, instead of concentrating on building one pipeline, several pipelines should be built, including a route through

Iran.25 Natik Aliyev, president of SOCAR, has reportedly said that Baku would like to export at least some of its oil via Iran. IRNA said that it had learned from an interview with Aliyev that Azerbaijan considered Iran to be the most economical route for sending Caspian Sea oil to world markets. Similarly, Kazakh government sources consider a southern pipeline through Iran would be the shortest and the most cost-effective option. The Caspian states need a way out and they need it fast. They cannot afford to wait another five years before a pipeline can get off the ground. Therefore, they may use the most immediate option, which would be to drop out of the project and extract oil from Kharkh island, using the oil refineries in Northern Iran.26

The increasing importance the West has attached to the Caucasus-Caspian region cannot be overstated. Western investors, as well as their governments, favour the multiple pipeline option, which would allow oil and gas to flow in several directions and would also prevent Iran, Russia or any other country from having a monopoly. Sometime in 1998, after assessing all the economic and geopolitical issues involved, a final decision will be made on the route of the main pipeline(s).

The massive scale of investment and activity related to the extraction of oil deposits in and around the Caspian Sea region will definitely have a noticeable effect on social and economic life in the region. The convergence of security interests among former adversaries reflects the growing salience of 'complex interdependence' in the region. In this context, mention is made quite often of the great potential provided by the Caspian oil fields. The transformation of the Caucasus from a battlefield to a market place seems to be a common theme nowadays.

There is great potential for and variety of investment opportunities in the region. Because the oil economy requires an immense infrastructure, many service industries will be involved. This means major capital expenditure in houses, roads, railroads, hotels, telecommunications, warehouses and services.

Economic co-operation is cited as playing a potential key role in solving regional differences. In this way, Caspian Sea oil and pipelines from the Caspian could be a source of both prosperity and reconciliation. A balanced development of the potential in the region could be linked to a resolution of the various conflicts in the region, such as the Nagorny-Karabakh problem between Azerbaijan and Armenia.

The very factors that promote regional stability, ironically, could also sow the seeds of instability. The same potential development in Caspian oil and pipelines could provide the fuel for further conflict. With a rapid growth in revenue, the rulers' positions could be bolstered to a great extent. Oil revenues will enable them to modify their military establishments dramatically. Military outlays might absorb resources that could otherwise be used for civilian consumption, capital formation, or loans to others for development purposes. For the leaders of Georgia and Azerbaijan, a torrent of oil money might increase the temptation to reconquer the territories they lost in the aftermath of the collapse of the Soviet Union.

The potential for regional instability might not be restricted to inter-state competition, but could also be the result of challenges posed by global competition. One of the major features of the oil industry its international nature and the inevitable ensuing involvement with politics on a world-wide scale. The inter-relationship of geopolitics, economics and technology, which is the basis of the oil industry, is a complex one. With the growing importance of petroleum for industry, communications and war it has become a strategic community that commands the attention of the major powers competing for prominence and economic gains. The recent competition between British Petroleum, Amoco, Pennzoil, Norway's Staatoil, and Russia's Lukoil as to how the oil from the region would be exported and brought to the world markets is an example to the explosive nature of geo-economics. Extra-regional competition, when linked to the traditional and contemporary sources of conflict within the Caucasus itself, may form the basis of a dangerous alliance in the region with catalytic effects.

At this moment in history, the Caspian-Caucasus region is at a crossroads of immense importance. The potential in oil reserves is providing the whole region with a unique opportunity to pursue the goals of balanced and peaceful development. The crucial factor is the way in which the Caucasians use the revenues from this strategic source. This is an important period in history, as events now being played out in the Caspian region will have a major impact on the availability and price of oil in the next century. As for the outside powers, it must be emphasised that it will not be in anybody's interest in the longer term to promote one regional player at the expense of the other. Whilst this region is not in close proximity to the centres of influence and power in Europe, it possesses greater riches and poses greater dangers than the Balkans.

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l Kalandarov, Kamilzhan, Nezavisimaya Gazeta, 4 June, 1997, p.5.

2 Bagirov, Sabit, 'Azerbaijani Oil: Glimpses of A Long History', Perceptions, June-August, 1996.

3 Ibid., p.42.

4 Ibid., p.35.

5 President Aliev tried to develop better relations with Iran as well, particularly in the fields of oil production and marketing. On 12 November, 1994, five of SOCAR's 20% shares in AIOC were transferred to Iran. Owing to objections from the US government, however, this transfer was revoked.

6 This contract provides shares to following companies: Pennzoil (30%), Italian AGIP (30%), Lukoil (32%), and SOCAR (7.5%). See Interfax, Moscow, in English, 9 June, 1995.

7 The Shah Deniz consortium is divided between the BP-Staatoil Alliance, which holds a 51% stake, Russia's Lukoil (10%), France's Elf Aquitaine (10%), Iran's OIEC (10%), Azerbaijan's SOCAR (10%) and Turkish Petroleum 9%. Declared reserves in Shah Deniz are 230 million tonnes. See MEED, 24 May, 1996, p.14; and Azerbaijan Daily Deport, February 1998.

8 The contract provides shares for Amoco (30%), Unocal (25.5%), Itochu (20%), SOCAR (20%) and Saudi Arabia's Delta (4.5%). See OMRI Daily Digest, 16 December, 1996.

9 Participants are French Elf-Aquitaine (75%), and SOCAR (25%). See Reuters, Paris, 13 January, 1997.

10 Bol'shaya Sovetskaya Entsiklopediya, Vol. 43, 2nd edition, to press 13 August, 1956, p.443.

ll Blank, Stephen, 'Russia's Real Drive to the South', Orbis, Vol. 39, Summer 1995, pp. 369-370.

12 Kalandarov, Kamilzhan, Nezavisimaya Gazeta, 4 June 1997, p.5.

13 Blank, Stephen, 'Russia's Real Drive to the South', Orbis, Vol. 39, Summer 1995, p. 370.

14 As regards the matter of security in the Caspian basin, Iran attaches 'great importance to the establishment, to the safeguarding and continuation of peace and stability in the region'. (The Iranian Journal of International Affairs, Vol. VII, no. 4, Winter 1996, p.845.) Iran has good reason for wishing to tread carefully. Instability could spill over and spread from the Caucasus into Iran.

15 Middle East Economic Digest, 20 October, 1995, p.31.

16 Ibid.,8 July, 1994, p.33.

17 In future, the interests of Azerbaijan and Kazakhstan might be quite different. Azerbaijan is more interested in exporting to the Western markets. Kazakhstan is, however, further away from

Western markets, but has a potential link to the new expanding markets of East Asia through China. This region is the most rapidly growing sector in the world as regards energy demands. It seems quite logical that Kazakhstan could easily choose to look East rather than West.

18 Turkish Probe, 21 July, 1995, p.9.

19 Middle East Economic Digest, 3 June, 1994, p.24.

20 The Deputy Under-secretary of the Turkish Foreign Ministry said in November1997 that Turkey would reconsider the Straits Regulations in a way that would ease the tension between Russia and Turkey. (Hürriyet, 20 November, 1997.)

21 Pipeline News, No.37, 19 November, 1996, pp.12-13.

22 Pipeline News, No.37, 19 November, l996, p.9. At least eight routes are being seriously considered at the moment. Some would lead to markets in Asia, such as proposed new pipelines from Kazakhstan to northern China, and from Turkmenistan through Afghanistan to Pakistan.

23 In December, 1997, the International Monetary Fund (IMF) approved loans totaling $64 million to support economic reforms in Azerbaijan. The fund said inflation had fallen shaply and growth is resuming. As the oil sector continues to develop, the IMF said the country's growth rate would surge from 7% in 1998 to 9.6% in the year 2000. (Reuters, Washington, 23 December, 1997.)

24 In late October 1996, Tehran and Almaty agreed to swap oil. Accordingly, the Kazakhs will ship the crude oil via the Caspian to the Iranian harbours of Bandar Anzali and Neka to be delivered through the existing pipeline network to the Tebriz and Tehran refineries. In return, Iran will export the same amount from its own production through its Persian Gulf terminals. The US administration announced that Tengizchevroil's swap deal with Iran did not fall within the purview of the 1996 Law. (Middle East Economic Digest, l November, 1996, p. 38; New Europe, 17-23 November, 1996, p.l.)

25 US Energy Secretary Federico Pena reiterated the US commitment to multiple pipelines. (Voice of America, 21 November, 1997)

26 Reuters, 16 January, 1998. On 31 January, 1998, Heidar Aliev stated that 'an improvement in US-Iranian relations can contribute to peace and stability in the Caucasus'. (RFE/RL Newsline, 5 February, 1998)