

# Back Yard Politics: Russia's Foreign Policy Toward the Caspian Basin

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Since the dissolution of the Soviet Union in 1991, the Caspian Sea region has emerged as one of the twenty-first century's last untapped oil supplies.<sup>1</sup> Two nations in particular, Kazakhstan and Azerbaijan, possess the majority of the Caspian Basin's oil reserves. Approximately 40 billion barrels of oil has been discovered under areas of the Caspian seabed that border Azerbaijan and Kazakhstan, and Western oil companies estimate that as much as 100 to 200 billion barrels may exist.<sup>2</sup> By comparison, Kuwait's proven reserves are 97 billion barrels, and few oil experts believe that Kuwait's unproven reserves could rival those of the Caspian Sea.<sup>3</sup> Many economists believe that the high concentration of oil reserves in and around the Caspian Sea has the potential of replacing Alaska's northern fields and Europe's North Sea oil reserves when those resources are depleted.<sup>4</sup>

The Caspian oil resources are of both regional and international significance. On one hand, the Caspian oil resources are important to Azerbaijan, Kazakhstan, and Russia. To Azerbaijan and Kazakhstan, the oil resources are the keys to economic growth, self-sufficiency, and independence from Russia. And to Russia, the region and its oil reserves are tied to Russia's national security interests. On the other hand, the Caspian Basin is of international significance because it represents one of the world's last remaining untapped oil supplies. Access to and control over oil resources have emerged as an area of contention and friction between Russia and the newly independent Caspian republics.

Since 1993, Russia's foreign policymakers, President Boris Yeltsin, former Foreign Minister Andrei Kozyrev, and current Foreign Minister Yevgeny Primakov, have all asserted Moscow's vital interest and special role in the former republics of the Soviet Union and have legitimized Russian intervention to protect them.<sup>5</sup> Nowhere is Russia's assertive foreign policy more apparent than in the Caspian region. In the Caspian Basin, oil represents vital Russian economic

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and security interests. One argument is that Russia is coercing the former Soviet republics of the Caspian Basin into an economic-military-political union that is imperialistic and colonialist in nature and reminiscent of Moscow's centralized Soviet-era relationship.<sup>6</sup> Because Russia is the least dependent economy in the Commonwealth of Independent States (CIS) and Moscow no longer has exclusive control over the Caspian region's oil industries, such a union would benefit Russia more than it would benefit Azerbaijan or Kazakhstan. The Caspian nations, with the assistance of international oil companies, have thus far prevented the establishment of a Russian dominated oil cartel. They have not, however, prevented Moscow from securing a share in their oil industries and a central role in the transportation of Caspian oil.

Russia's loss of dominance over the Caspian republics' oil industry has led to its assertive foreign policy in the region. In this article, I will show how Russia, through diplomatic pressure and imperialistic, coercive policies—including blackmail, attempted subversion, and military intervention—has maintained an economic and political influence over the Caspian republics.<sup>7</sup> Russia's direct or indirect authority over and access to the oil reserves has been an effective means of controlling the Caspian region.

### **Moscow's Loss of Influence in the Caspian Basin**

Moscow's loss of centralized economic and political control over the Caspian republics has affected its regional hegemonic position for a variety of reasons. First, Moscow's central role and control have diminished while the role of regional and international players has increased. Moscow no longer controls the republics that once were the buffer zone between the USSR and Central Asia and the Middle East. As Russia's central role continues to diminish and the Caspian nations become more independent, Moscow will find itself vying with regional powers such as Turkey and Iran for influence in the region. Moscow will also face growing national independence movements in the Caspian region, as Azerbaijan and Kazakhstan reinforce their "determination to be fully sovereign states."<sup>8</sup>

Second, the Russian military presence in the Caspian Basin has also diminished, especially in Azerbaijan, making it harder for Russia to respond to security threats in that region.<sup>9</sup> As a result, perceived security threats are now much closer to Moscow than they were during the cold war.

Third, Russia no longer has monopoly control over the oil industries and supplies of the former Soviet Republics, particularly the untapped oil reserves in the Caspian Basin. Therefore, Moscow can benefit only minimally from the development and export of those resources.

Fourth, Russia sees Western oil industries in the Caspian region as a potential source of competition for hard currency and international trade, in essence, a threat to Russian hegemony and influence.

All of the above shaped Russian foreign policy toward the newly independent Caspian states. An explanation of Moscow's less-influential position in this region aids in understanding why control of and access to natural resources have become fundamental to Russia's economic and political future.

Prior to 1991, Moscow directly controlled the oil industries within its borders, including the oil in the Caspian region. However, Russia's centralized control has been replaced by the burgeoning governments in the CIS. This shift means that Moscow no longer receives economic return from the sale of oil it no longer directly controls; it now goes to the nation from which it was extracted. Moscow therefore constructed a foreign policy to ensure its central role in all future oil deals. The policy that has emerged asserts Moscow's "inherent right" to the resources of the CIS. Although it is true that the USSR established much of the oil infrastructure in the Caspian Basin, it is unlikely that that is Russia's only motivation for retaining its interest in the resources.

Moscow has lost control over vast energy resources that it chose not to exploit prior to 1991 (unlike Siberia). If the energy reserves are as plentiful as many experts believe, why was the Caspian region never fully developed during the years of Soviet control? One suggestion is that the USSR lacked the expertise and technology necessary for large-scale oil exploration in the Caspian region.<sup>10</sup> Another possibility is that Moscow ignored the Caspian's energy wealth because oil production costs in Siberia were low and supplies were abundant.<sup>11</sup> It is likely that both assessments are correct. It is also likely that, because of Siberia's location within the Russian republic, Moscow was able to closely control the flow of oil to the perimeter republics. The result is that Moscow now risks losing out on economic returns because of the Caspian nations' emerging independence and Western development of the Caspian region's oil.

Without direct involvement in future energy deals, Russia may also lose political influence in the region to Western and Middle Eastern nations. In that case, the balance of power in the Caspian region is directly linked to the control of oil. Russian Prime Minister Viktor Chernomyrdin has already stated that the West is undermining the energy security of the CIS.<sup>12</sup> It is apparent that Russia is not willing to cede any of its authority within its former sphere of influence, especially the Caspian region.

Despite its abundant resources and international attractiveness, the Caspian Sea fields have remained largely untapped for a variety of reasons. Since 1991 any moves by the Caspian nations to develop and export oil have been thwarted by Russian diplomatic pressure and attempts to control the energy-rich region.<sup>13</sup> Moscow has specifically asserted that it will not recognize unilateral moves by any nation to develop the Caspian Basin's oil fields.<sup>14</sup> The Caspian region is landlocked, and thus Azerbaijan and Kazakhstan can export oil beyond their respective borders only by relying on existing pipelines in Russia and Chechnya.<sup>15</sup> The foreign interests of Turkey, Iran, and the Western multinational corporations (MNCs) have further complicated oil drilling and exporting issues. On one hand, foreign interests present the Caspian states with attractive alternatives that ultimately reduce their reliance on Russia. On the other, foreign interests add more players to the mix and complicate the competition over oil extraction and transportation. Although these factors affect all of the nations in the Caspian Basin, the effect on Azerbaijan has perhaps been the greatest because of Azerbaijan's immediate promise for growth and its unique relationship with Russia.

### Russia's Foreign Policy

While Russia's oil company LUKoil has already secured a percentage in the burgeoning Caspian oil industries, this role does not afford Moscow any direct control over the oil or the Caspian republics. Azerbaijan's Caspian Sea oil fields are being developed by the Azerbaijan International Operating Company (AIOC), a consortium of international oil companies (see table 1).<sup>16</sup> In September 1994, the AIOC signed an \$8 billion deal with the government of Azerbaijan to develop the Azeri, Chirag, and Gunahli oil fields.<sup>17</sup> LUKoil's share in the AIOC is 10 percent, equal to that of Azerbaijan's state oil company Socar, but 7 percent less than either Amoco or British Petroleum.<sup>18</sup> It is believed that granting LUKoil a 10 percent share in the oil consortium will make Russia willing to work with the AIOC rather than undermine it.<sup>19</sup>

To ensure a central controlling position in the future energy infrastructure of the Caspian Basin, Moscow's foreign policy has focused on two areas: the ownership and control of existing pipelines and the geographical status of the Caspian Sea itself.

First, Moscow has pressured Azerbaijan and Kazakhstan to use Russian oil pipelines to pump Caspian oil to the Black Sea port of Novorossisk.<sup>20</sup> One reason that Caspian Sea oil has remained largely untapped is that the present system of pipelines is owned and controlled by Russia;<sup>21</sup> Moscow has a virtual monopoly on the existing, functional natural gas and oil pipelines to Europe.<sup>22</sup> A Central Asian–Transcaucasian pipeline would represent a source of energy and billions of dollars in transit royalties to the nations it crosses.<sup>23</sup> A pipeline would give the nations that hold it political influence and leverage in the event of conflict.<sup>24</sup> For example, a government might control the flow of oil for political rea-

**TABLE 1**  
**Azerbaijan International Operating Company Consortium Members**

Oil company	Country	Percentage share
BP	Great Britain	17.1
Amoco	United States	17.0
LUKoil	Russia	10.0
Socar	Azerbaijan	10.0
Pennzoil	United States	9.8
Unocal	United States	9.5
Statoil	Norway	8.5
Turk. Petrol.	Turkey	6.8
Exxon	United States	5.0
McDermott	United States	2.5
Ramco	Great Britain	2.0
Delta Nimir	Saudi Arabia	1.7

Source: *Los Angeles Times*, 10 October 1995.

sons. The potential economic and political benefits that a pipeline could bring have already set in motion a regional competition for the transportation of Caspian oil.

Second, Russia has argued that the Caspian Sea is an inland lake and that its contents are the shared property of all the bordering nations. Since 1935, the Caspian Sea has been regarded as a Soviet-Iranian sea.<sup>25</sup> Treaties between the Soviet Union and Iran delimited boundaries on either side of it. The question of the sea's internal boundaries was never addressed.<sup>26</sup> The emergence of Azerbaijan and Kazakhstan and the absence of any boundaries within the Caspian Sea sparked a dispute among the sea's bordering nations, of which there are now five.

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On one side, Azerbaijan and Kazakhstan argue that the Caspian is an inland sea. On the other, Russia, Iran, and Turkmenistan argue that the Caspian Sea is a lake.<sup>27</sup> If the Caspian is deemed an inland sea, the energy resources within it would be subject to geographic division reflecting the boundaries of the bordering

nations. If it is deemed a lake under international law, the subsoil resources would be the shared rights of all the nations that border it.<sup>28</sup>

The dispute pits the “haves” against the “have-nots.” Azerbaijan and Kazakhstan—the haves—have the most to gain by exploiting the Caspian Sea’s subsoil resources because they border areas of the sea known to contain large oil reserves. Russia, Turkmenistan, and Iran—the have-nots—know that any revenue generated from Caspian oil exploration outside of their control will further hinder their already struggling economies.<sup>29</sup>

The question of the Caspian Sea’s status has never been adjudicated in an international court. Brice Clagett and Bernard Oxman, however, contend that the Caspian Sea’s subsoil resources are *not* owned in common by the nations that border it.<sup>30</sup> Both authors believe that the best solution would be to divide the sea according to the geographic divisions of the bordering nations.<sup>31</sup> Oxman argues that,

the real issue is not whether the Caspian Sea is a sea or lake as such, but whether, in light of its natural, political, and historic characteristics, its regime is, or should be analogous to the regime we normally associate with lakes . . . bordered by more than one state.<sup>32</sup>

### **Pipeline Politics—Moscow’s Hand in Every Pot**

Russia, Turkey, Iran, and the AIOC each have a vested interest in the transportation of Caspian oil. For any nation of Central Asia and Transcaucasia, a pipeline through its country means economic returns and regional power. To the

AIOC and the West, a pipeline represents future revenues and an alternative to Persian Gulf oil. Russia, Turkey, and Iran each desired a pipeline route that crossed its territory, but geopolitical jockeying by Russia, in the form of diplomatic and military pressure, eventually shaped the future of oil export from the Caspian region.

### Transport Options

The most direct and least likely pipeline route would extend from the Caspian fields near Baku south through Iran to the Indian Ocean. Although a pipeline through Iran covered the least distance, American oil companies belonging to AIOC, pressured by the U.S. government, prevented Iran from having any role in transporting Caspian oil. One White House official stated that Iranian control over the shipping of the world's largest alternative to Persian Gulf oil would not improve global oil matters in the Middle East.<sup>33</sup> Although this option was blocked because of U.S. pressure, it would be unwise to ignore the possibility that Iran may one day represent a cost effective oil export route for Baku.

Ankara proposed an alternative route that would pipe Azeri oil from the Caspian Sea to the Georgian capital of Tbilisi and eventually into Ceyhan, a port on Turkey's Mediterranean coast. The Turkish proposal requires that two pipelines be built: one from Baku to Tbilisi and the other from Tbilisi to Midyat.<sup>34</sup> Turkey's proposed venture also carried a \$155–\$200 million price tag, compared with \$55 million for repairs and upgrading to make the existing Russian pipeline functional.<sup>35</sup> Western governments favored Turkey's proposal, primarily because it prevented Moscow from having a monopoly on the export of Caspian oil.<sup>36</sup>

Russia then advanced a third alternative. Because Russian pipelines already exist, they represent the most viable short-term oil shipping alternative. Thus, Moscow proposed transporting the Caspian Sea oil via the Transneft Pipeline that connects Azerbaijan to the Russian port of Novorossisk on the Black Sea. The oil would then be shipped via tanker across the Black Sea, through the Bosphorus Strait, and on to Europe.

Turkish officials, invoking the 1936 Montreux Treaty, argued that increased tanker traffic through the Black Sea and Bosphorus Strait would threaten the environment and coastline of Istanbul. In addition, the Turkish government argued that increased oil shipping increased the potential for oil-related environmental accidents. According to one Turkish diplomat, "Turkey wants routes that are environmentally sound, economically viable, would involve cooperation with the Russians, and not allow the new independent states to [be held] economic hostage to Russia."<sup>37</sup>

Finally, in October 1995, the government of Azerbaijan, along with the AIOC, announced that a dual pipeline approach would be adopted. The first route, the one favored by Russia, will take Caspian oil to the Russian port of Novorossisk, and the second will transport oil from Baku to the Georgian port of Supsa.<sup>38</sup> Despite the pipelines transporting the oil to Russia and Georgia, Turkey hailed the decision, believing that the decision will pave the way for eventual development of a pipeline from Tbilisi to Midyat.<sup>39</sup> Western governments and the AIOC

also prefer this approach because it prevents Moscow from having complete control over the region's oil exports, as the non-Russian nations had feared. Vefa Galizade, senior adviser to Azerbaijan President Heydar Aliyev, hailed the decision stating, "We do not want to spoil our relations with Moscow, but one pipeline through Russia does not correspond with the interests of an independent Azerbaijan."<sup>40</sup> Will the dual pipeline solution limit Russia's control over the export of Caspian oil?

### **Russia's Use of Energy as a Weapon**

The dual pipeline option delivered Moscow a victory in its attempts to remain a central influence on the nations that once constituted the Soviet Union's perimeter republics. Despite the two-pronged pipeline solution, it is still possible that any nation along the pipeline, especially Russia, could stop the flow of oil for political reasons. Karen Dawisha argues that Moscow's national security interests in the near abroad are so great that Russia has used its position as the least dependent economy in the CIS to exert economic pressure by withholding energy from the newly independent perimeter nations.<sup>41</sup> In June 1993, Moscow seemingly arbitrarily cut back the flow of natural gas to Ukraine, and later the same month, it shut off the gas supply to Estonia for four days.<sup>42</sup> Regardless of Moscow's intentions in either case, an unofficial political message was sent: Russia is still interested in maintaining central control over the CIS.<sup>43</sup> Cutting back the flow of natural gas to the Ukraine coincided with German Chancellor Helmut Kohl's visit to Kiev. Stanglin argues that this was Moscow's way of reminding Georgian President Eduard Shevardnadze that Russia was "first among equals in its former empire."<sup>44</sup> Boris Yeltsin stated that shutting off gas to Estonia came in response to that nation's attempt to pass citizenship laws.<sup>45</sup> The laws required foreigners to pass an Estonian language test prior to becoming citizens or resident aliens and set forth a two-year timetable in which to do so.

Moscow's use of energy as a weapon to control former Soviet states is quite real. It is not unrealistic to think that, by exporting their resources via Russian pipelines, Azerbaijan and Kazakhstan could be hostage to Moscow's political pressures. By relying on Russian pipelines to transport Azeri oil, Baku would relinquish control of its primary source of hard currency to Moscow. In turn, Moscow would have a greater influence on the economy of Azerbaijan. Control of energy pipelines not only affords Moscow powerful leverage over the Caspian region, it also enhances Moscow's ability to influence the other former Soviet republics that rely on Russian pipelines and energy (see table 2 for the primary energy producers and consumers of the CIS).

For Russia, the potential power associated with controlling energy pipelines was so valuable that Moscow resorted to military action and subversive means to ensure that Russian pipelines were included in the dual pipeline solution. Moscow's pressure ranged from diplomatic-political control over sales of oil, to alleged covert operational and military activities. The following examples show how Moscow pressured Azerbaijan, Georgia, Chechnya, and to a lesser extent, Kazakhstan with regard to the development and export of Caspian oil.

**TABLE 2**  
**Energy Imported from Russia by Primary CIS Consumers**  
**as a Share of Consumption**

Country	Natural gas (%)	Crude oil (%)
Ukraine	56	89
Belarus	100	91
Lithuania	100	94
Latvia	100	None <sup>a</sup>
Estonia	100	None <sup>a</sup>
Moldova	100	None <sup>a</sup>
Georgia	27	82
Armenia	0	None <sup>a</sup>
Azerbaijan	0	14
Turkmenistan	0	16
Uzbekistan	0	55
Tajikistan	0	None <sup>a</sup>
Kyrgyzstan	0	None <sup>a</sup>
Kazakhstan	0	0

Source: PlanEcon, *U.S. News and World Report*, 12 July 1998.

<sup>a</sup>These countries have no oil refineries and import their oil.

### Russia's Diplomatic Pressure

Diplomatic pressure from Moscow has impeded the ability of Azerbaijan and Kazakhstan to exploit their natural wealth. Officially, Moscow has repeatedly stated that it holds a unique position in the CIS. In a 1994 speech before the United Nations, Andrei Kozyrev proclaimed Russia's special role and influence over the former Soviet Union.<sup>46</sup> The following October, Russian intelligence chief Yevgeny Primakov argued that Western-led oil deals posed a threat to Russia's national security.<sup>47</sup> Aside from the elevated rhetoric of Primakov and Kozyrev, Moscow's foreign policy has taken the form of diplomatic letter.

On 28 April 1994, the Russian government sent a letter to the British embassy in Moscow that outlined Moscow's role in approving all Caspian Sea oil deals. The *démarche* stated that:

any steps by whichever Caspian state aimed at acquiring any kind of advantages with regard to the areas and resources . . . cannot be recognised . . . [and] . . . any unilateral actions are devoid of legal basis.<sup>48</sup>

This letter represented Russia's first assertion that Moscow intended to have a role in the exploitation of the Caspian Region's oil resources.

In November 1994, Russian Energy Minister Yuri Shafranik officially announced his government's intentions to take part in all energy projects undertaken by the CIS.<sup>49</sup> Shafranik stated that the nations of the Caspian Basin could not independently act to exploit their part of the sea's shelf because (a) the sea represents one ecosystem and therefore required an international organization to

decide on its exploitation; (b) the sea's boundaries and navigation rights had not been defined; and (c) all projects developed by former Soviet states relied on an infrastructure established by Moscow (pipelines) during the Communist period.<sup>50</sup>

One year later, Moscow sent another diplomatic letter to the governments of Azerbaijan and Kazakhstan. It stated that "unilateral projects for the exploitation of Caspian Sea resources, that ignore the Caspian's juridical status are exposed to dangers including those of material destruction."<sup>51</sup> It further expressed that Moscow "reserves the right to restore order and eliminate the consequences of one-sided steps," establishing its role in keeping peace and preserving security inside its former borders.<sup>52</sup> While this letter reiterates Moscow's self-proclaimed role in the future energy exploitation of the Caspian Sea, it also asserts that Russia can act unilaterally against any nation choosing to ignore its dictate.

### **Diplomacy Left Behind—Russia's Other Tactics**

#### **Azerbaijan**

Azeri President Heydar Aliyev has accused Moscow of inciting two police-led uprisings aimed at overthrowing his government.<sup>53</sup> On 20 September 1994, Azerbaijani officials signed a \$7 billion deal with a consortium of Western oil companies to explore three oil fields in the Caspian Sea. Less than two weeks later, deputy parliament speaker Afiyaddin Jalilev and security chief Shamsi Ragimov were killed. During the same time, a number of antigovernment prisoners escaped from Azeri prisons. According to Farkhad Agamaliev, press secretary of the Azeri Mission in Moscow, "it was no coincidence that the recent events happened so soon after the deal was signed."<sup>54</sup> President Aliyev blamed forces from "abroad and within . . . who have a stake in Azerbaijan's future" for attempting a palace coup.<sup>55</sup> Agamaliev further alleged that the attempted coup and killings were linked directly to external desires to keep his country unstable with the hope of thwarting any oil deal.<sup>56</sup>

Another example of Moscow's intimidation directed at the Caspian oil question involved Russia's closing of its southern border with Azerbaijan. This move effectively closed off all road and rail traffic between Azerbaijan and Russia and blocked Baku from its main export market and source of oil drilling equipment.<sup>57</sup> Moscow's political move occurred shortly before the AIOC announcement of pipeline recommendations for transporting Caspian oil.

Moscow has sought to promote instability in Azerbaijan. Russian military assistance to Armenia in that country's war with Azerbaijan over the disputed enclave of Nagorno Karabakh may have prevented Baku from turning the tide of the conflict. Although the Azeris outnumber the Armenian forces, they have suffered severe losses in both casualties and territory. Azerbaijan's losses are linked directly to its poor economic situation brought about by eight years of conflict with Armenia.<sup>58</sup> Baku's wealth lies in wait in off-shore oil reserves. To effectively control Azerbaijan, Moscow needs only to prevent Baku from benefiting economically from the Caspian oil reserves. It is likely that wealth from the sale of oil could shift the balance of the Nagorno Karabakh war in Azerbaijan's favor. The

longer Russia can aid Armenia and keep Caspian oil from flowing west, the more likely Moscow will be able to control Azerbaijan's fate: Baku will sink further into economic decline and will remain embroiled in a war that it cannot win.

### Georgia

On 24 August 1995, the Turkish prime minister's chief advisor, Emre Gonensay, met with Georgian President Eduard Shevardnadze to appeal for his nation's support of a pipeline linking Azerbaijan to Turkey by way of Georgia,<sup>59</sup> bypassing Russia's controlled pipelines. Shevardnadze pledged his support to the Turkish proposal, and five days after the meeting he was nearly killed by a car bomb explosion.<sup>60</sup> When asked if he felt that the bombing may have been related to the pipeline dispute, Shevardnadze replied, "Now you're asking the right question!"<sup>61</sup> Shevardnadze has repeatedly accused Russia and his former security chief, Igor Georgadze, of masterminding the assassination attempt.<sup>62</sup> Georgadze is living in exile in Russia, where he continues to threaten Shevardnadze's life.<sup>63</sup>

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***“Moscow views oil as crucial not only to its economic future but also to the balance of power in the region.”***

As noted, the Georgian pipeline alternative bypasses Russia and runs northwest of Azerbaijan to the Georgian port of Supsa. Although the line is in disrepair, Georgia, Turkey, and Western governments favor this route for a variety of reasons. Georgia welcomes the proposal because it would bring energy and millions of dollars in transit tariffs to its nation. Turkey favors this route because it feels that is the first step in creating an Azerbaijan-Georgia-Turkey pipeline that would eventually pump Caspian oil to the Mediterranean Sea. Western governments favor this route because it removes Moscow's exclusive control over oil shipments from Azerbaijan. On the surface, Russian military presence in Georgia and Chechnya appears to be directly linked to the ethnic unrest in the two regions. However, the geographic location of both nations, along oil and gas pipelines, also makes them economically and strategically attractive to Moscow.

Arguably, Russian military pressure in Abkhazia and South Ossetia was driven by Moscow's desire to pull Georgia further under its control.<sup>64</sup> Another reason for Moscow's move was the fact that shipping oil through a Georgian pipeline would reduce the cost of transportation, thus making it an attractive alternative to using the Russian lines. A continued Russian military presence in Georgia allows Moscow closer control over the flow of Caspian oil.<sup>65</sup> Not only does Georgia represent a strategic nation for oil export, but it also represents an easily controlled puppet-nation as it relies on Russia for 85 percent of its energy needs.<sup>66</sup> By positioning its military in Georgia, Moscow moves itself closer to controlling or, at the very least, influencing the pipeline.

### **Chechnya**

Like Georgia, the breakaway republic of Chechnya is also strategically located along oil shipping routes. A significant portion of the Russian Transneft Pipeline that connects Azerbaijan to the Black Sea port of Novorossisk runs directly through Grozny, Chechnya's capital. Chechnya also stands at the crossroads between potential pipeline routes from Kazakhstan to the Black Sea. According to Ruth Daniloff, "control of oil and oil refineries clearly played a role in Moscow's brutal invasion of . . . Chechnya."<sup>67</sup> Robert Ebel argues that Chechnya's importance in the oil production industry has vanished, as the violence in the region has damaged much of the oil infrastructure and forced the majority of skilled oil industry laborers to flee the hostilities in Grozny.<sup>68</sup>

Although Chechnya is no longer a key oil producing region, its geographic location, between Azerbaijan and the Black Sea, makes it an important oil shipping route.<sup>69</sup> One element of the recent pipeline pact signed between Russia and Chechnya suggests that Moscow will commit funds to repair the pipeline and pay Chechnya a fee of \$854,000 in oil transit tariffs.<sup>70</sup> This agreement not only provides Chechnya with needed revenue, but it gives Moscow a direct role in all future oil export through the region.

### **Kazakhstan**

Russia's foreign policy toward the Central Asian republic of Kazakhstan reflects Moscow's desire to have a central role in the nation's emerging energy markets. With vast amounts of untapped natural gas and oil, Kazakhstan is hindered by its geographic location west of the Caspian Sea. Like Azerbaijan, Kazakhstan is a landlocked nation greatly reliant on Russian pipelines for exporting its energy fuels. Russia has powerful leverage over Kazakhstan because it controls the infrastructure for refining and transporting Kazakh oil and gas.<sup>71</sup> Russia's monopoly on the existing fuel pipelines to Europe and desire to have a stake in the growing energy industries of the Caspian Basin, are two primary obstacles affecting the development of the Kazakh energy industries.

Development of the Tengiz oil field in western Kazakhstan, thought to contain one of world's ten largest oil fields, has been a target of Moscow. In 1992, a contract was signed between the American oil company Chevron and the government of Kazakhstan to develop the Tengiz oil field's estimated 25 billion barrels of oil.<sup>72</sup> The deal established Tengizchevoil, a business consortium in which Russia's was given a 25 percent share.<sup>73</sup> Between 1992 and 1996, Moscow "persuaded" Kazakhstan to increase Russia's stake in the oil consortium from 25 percent to 44 percent.<sup>74</sup> The crux of Russia's foreign policy hinged on the potential economic returns from the field's immense oil reserves—the larger Russia's stake in the consortium, the greater Russia's economic gain. Moscow pressed Kazakhstan by withholding payments for coal mined in the Kazakhstan, partially paralyzing the republic by reducing its fuel supply, and reducing the republic's access to the Russian pipeline system.<sup>75</sup> According to Martha Brill Olcott, Kazakhstan's only real choice was to give Russia a share in the oil profits while ensuring the greatest possible economic benefit to itself.<sup>76</sup>

From May to August 1994, Russia also blocked almost all of Kazakhstan's oil exports, forcing its refineries to halt production.<sup>77</sup> Russia's pressure eventually swayed the Kazakh government and, by August 1994, Moscow once again began exporting its oil to Kazakhstan in return for one million tons of Kazakh crude oil. Russia then re-exported the Kazakh oil west, ultimately eliminating any hard currency return to Kazakhstan.<sup>78</sup>

### **Russia's Future Interest in the Caspian Basin**

Russia's diplomatic and coercive measures have not only established Moscow's membership in the oil producing consortiums of the Caspian region, but the measures have also allowed Moscow to control the flow of oil from Azerbaijan and Kazakhstan. Moscow's moves have brought with them the promise of future economic benefits and the power to control the former Soviet republics reliant on Russia for energy. It is likely that Russia will continue to cast its foreign policy toward the Caspian Region in a fashion that affords Moscow future economic and political influence over the CIS. Aside from the political leverage and economic returns, what other incentives does Moscow have to continue to assert its "inherent right" to the Caspian Basin's oil?

One incentive is falling energy production in Russia. A recent estimate cited raw materials as accounting for 80 percent of Russia's trade revenue.<sup>79</sup> According to PlanEcon, a Washington, D.C., based energy consulting firm, from 1990 to 1995, Russia's oil production dropped from about 10 million barrels per day to about 6 million.<sup>80</sup> Accordingly, Moscow's oil exports dropped, reducing the amount of hard currency received from international oil sales. The emerging oil industries in the Caspian region present Moscow with a way to recoup the losses from its own declining oil production. Siberia's reserves will one day be depleted, and like Western nations, Russia will be reliant on foreign oil. Russia's direct involvement in the Caspian region is as much an immediate economic investment as it is a way for Moscow to ensure control over its future oil suppliers.

Another incentive for Russia is linked to its national security. Already, Russian intelligence chief Yevgeny Primakov has deemed the Caspian Basin oil reserves a vital Russian security interest. Moscow views oil as crucial not only to its economic future but also to the balance of power in the region. Both Azerbaijan and Kazakhstan fall within Russia's sphere of influence. Considering the extent to which Moscow has already gone to ensure its central role in the Caspian Basin's oil industries, it would not be unrealistic to argue that Russia is prepared to use military force to protect its interests.

A third incentive may be linked to the argument that Moscow is attempting to coerce the Caspian Republics into an economic-military-political union. It is possible that one day Russia's intentions may extend beyond economic and political leverage; however, it does not appear that this is Boris Yeltsin's immediate desire. Russia's foreign policy would probably change if Yeltsin were replaced by a hardliner like Vladimir Zhirinovskiy or Gennady Zyuganov, whose political platforms are reminiscent of the centralized control present during the Soviet era. A significant shift in Russian leadership would be likely to bring with it a drastic change

in many government policies; it would be shortsighted to argue that the Caspian Basin would be the catalyst for such a change. Rather, the Caspian Basin's oil industries would be the target of hard-line policies.

### **American Foreign Policy and the Caspian Basin**

One factor that I have not addressed is the role of American foreign policy in the Caspian Basin. Prior to 1996, U.S. interest in the region came from the non-state actors discussed here, namely American oil companies. In 1992, Congress imposed a ban on U.S. aid to Azerbaijan, electing instead to support Armenia economically in that country's war with Azerbaijan over the disputed region of Nagorno Karabakh.<sup>81</sup> After 1994, U.S. policy began shifting toward Azerbaijan and Kazakhstan, influenced by the desire to reap economic benefits from the development and sale of Caspian oil and to prevent the formation of oil blocs in the Caspian region,<sup>82</sup> and spurred by the lobbying efforts of Azerbaijani President Heydar Aliyev, U.S. oil companies, and past American national security officials such as former secretaries of state Henry Kissinger and James Baker, former defense secretary Richard Cheney, and former national security advisors Brent Scowcroft and Zbigniew Brzezinski.<sup>83</sup> It has already been stated that Iranian influence in the Caspian's oil industry is not in the interests of the United States. Similarly, Washington does not want to see the emergence of any Russian dominated oil blocs in the Caspian region.

After a recent meeting between Azerbaijani President Aliyev and U.S. Defense Secretary William Cohen, a joint statement was released mentioning the development of U.S.-Azerbaijani defense cooperation and possible U.S. training of the Azerbaijani army.<sup>84</sup> Although the aid ban against Azerbaijan has not been lifted by Congress, the Clinton administration appears committed to supporting a more favorable policy toward Baku.

The growing U.S. relationship with Azerbaijan has alarmed the other regional rivals, Russia and Armenia. Russia views foreign interest in the Caspian region as a threat to its regional hegemony and economic interests. Russian President Boris Yeltsin accused the United States of declaring the Caspian region to be within its zone of interest.<sup>85</sup> In August 1997, Yeltsin signed a treaty of friendship and cooperation with Armenia.<sup>86</sup> As noted earlier, Russia has been successful at influencing Azerbaijan through its economic and military support of Armenia. The recent Russia-Armenia treaty is likely a further attempt to exacerbate the dispute between Azerbaijan and Armenia over Nagorno Karabakh. Ultimately, the greatest repercussions would be on Azerbaijani development.

It is impossible to predict the degree to which Azerbaijan and Kazakhstan will grow independent of Moscow's control. It is clear, however, that external actors such as Russia, the United States, and the multinational oil corporations have vested economic interests in the Caspian Basin's oil reserves, and those interests will become security related as the nations involved further establish their presence in the Caspian region. The push of development by the multinational oil companies and the United States and the pull from Russia will continue to shape the Caspian region's political and economic independence. What remains to be

seen is who will benefit the most from Western investment in the Caspian region. The new "great game" in the Caspian Basin will be one of great international cooperation or conflict.

#### NOTES

1. In this article, the term "Caspian region" refers to the regions of the Caspian Sea that border the newly independent republics of Azerbaijan and Kazakhstan.
2. "Pipe Dreams in Central Asia," *Economist*, 4 May 1996, 37.
3. Ibid.
4. Richard Boudreaux, "Caspian Connection: Oil: Pact to Break Russia's Near-Monopoly on Flow of Energy," *Los Angeles Times*, 10 October 1995, D5.
5. Peter Shearman, "Defining the National Interest: Russian Foreign Policy and Domestic Politics," in *The Foreign Policy of the Russian Federation*, edited by Roger Kanet and Alexander Kozhemiakin (Hampshire, UK: Macmillan Press, 1997), 10.
6. Stephen Blank, *Energy, Economics, and Security in Central Asia: Russia and Its Rivals* (Carlisle, PA: Strategic Studies Institute, 1995), vi; Stephen Blank, *Energy and Security in Transcaucasia* (Carlisle, PA: Strategic Studies Institute, 1994), 1.
7. Stephen Blank, "Strategic Overextension: A Recipe for Failure? Notes on Russian Security Policy" (Washington, DC: The Heritage Foundation: Lecture No. 578, 1996), 8-9; Stephen Blank, "Russia the OSCE and Security in the Caucasus," Center for Security Studies and Conflict Research, 1997.
8. Martha Brill Olcott, "Oil and Politics in Kazakhstan," *Caspian Crossroads* (Winter 1995): 21.
9. Azerbaijan expelled Russian troops and closed Russian military bases even before Germany did. With the exception of the Baltic states in the east, Azerbaijan remains the only former republic without a Russian military presence. Paul Goble, "Pipeline and Pipedreams: The Geopolitics of the Transcaucasus," *Caspian Crossroads* (Winter 1995): 3; Jayhun Molla-Zade, "Recent Memoirs: An Interview with Former National Security Adviser Zbigniew Brzezinski," *Caspian Crossroads* (Summer-Fall 1995): 29.
10. "Kazakh and Oil," Trade and Environment Database, American University, 1997.
11. Robert Ebel, "Policy Forum: Energy Futures," *Washington Quarterly* (Autumn 1996): 84.
12. "Russia Sees Energy Threat," *Wall Street Journal*, 14 May 1996, A17.
13. Steve LeVine, "Caspian Sun on the Rise, Chasing Russian Shadow," *New York Times*, 27 October 1995, A4.
14. John Lloyd and Steve LeVine, "Russia Demands Veto over Caspian Sea Oil Deals," *Financial Times*, 5 May 1994, 2.
15. Goble, "Pipelines and Pipedreams," 3.
16. William Martin et al., *Maintaining Energy Security in a Global Context: A Report to The Trilateral Commission* 48 (New York, NY: The Trilateral Commission, 1996), 46.
17. Ibid.
18. Boudreaux, "Caspian Connection," D5.
19. Daniel Southerland, "Azerbaijan Picks Exxon over Iran for Oil Deal," *Washington Post*, 11 April 1995, A5.
20. Prior to 1991, oil and gas from the Caspian region were exported via the Glavtransneft pipeline, controlled exclusively by Moscow. Since then, the Transneft pipeline was constructed and effectively replaced the Glavtransneft pipeline. Oil is now carried by the Transneft pipeline to the Black Sea terminal at Novorossisk or overland to Western Europe. Martin, et al., *Maintaining Energy Security*, 46.
21. Ibid.
22. Steve LeVine, "Moscow Pressures Its Neighbors to Share Their Oil, Gas Revenues," *Washington Post*, 18 March 1994, A24.

23. Marshall Ingwerson and Sami Kohen, "At Your Local Gas Pump Soon: Caspian Sea Oil," *Christian Science Monitor*, 11 October 1995, 6.
24. Ruth Daniloff, "Oil and Blood in the Caucasus," *Washington Post*, 1 October 1995, C2.
25. Brice Clagett, "Ownership of Seabed and Subsoil Resources in the Caspian Sea under the Rules of International Law," *Caspian Crossroads* (Summer-Fall 1995): 3.
26. Ibid.
27. Martin, et al., *Maintaining Energy Security*, 46.
28. Ibid.
29. Daniel Sneider, "US, Russia Vie for Rich Oil Fields in Caspian Sea," *Christian Science Monitor*, 8 June 1995, 6.
30. Clagett, "Ownership of Seabed and Subsoil Resources," 12; Bernard Oxman, "Caspian Sea or Lake: What Difference Does It Make?" *Caspian Crossroads* (Winter 1995): 12.
31. Ibid.
32. Oxman, "Caspian Sea or Lake," 4.
33. Jim Hoagland, "Russia: Still Playing 'The Great Game,'" *Washington Post*, 27 September 1994, A21.
34. Martin, et al., *Maintaining Energy Security*, 46.
35. Ibid.
36. Daniel Southerland and Thomas Lippman, "Caspian Basin's Shaky Oil-Shipping Formula," *Washington Post*, 25 September 1995, A11.
37. Ibid.
38. The Russian Transneft pipeline is being used for the export of the first oil coming from Azerbaijan. Oil began flowing via the Transneft pipeline in November 1997. It is estimated that the Baku-Supsa Route will be functional by summer 1998.
39. Ingwerson and Kohen, "At Your Local Gas Pump Soon," 6.
40. Boudreaux, "Caspian Connection," D1.
41. Karen Dawisha, "Russian Foreign Policy in the Near Abroad and Beyond," *Current History* (October 1996): 332.
42. Douglas Stanglin, "Moscow Adopts the Monroeski Doctrine," *U.S. News and World Report*, 12 July 1993, 44-45.
43. Ibid; Mikhail Gorbachev used energy to compel Belarus, Ukraine, and the Baltic states in an attempt to hold the USSR together. Blank, *Energy, Economics, and Security in Central Asia*, 3.
44. Stanglin, "Moscow Adopts the Monroeski Doctrine," 44.
45. Ibid., 45.
46. Daniloff, "Oil and Blood in the Caucasus," C2.
47. Ibid.
48. John Lloyd and Steve LeVine, "Russia Demands Veto," 2.
49. John Lloyd, "Moscow Claims Caspian Energy Deals Veto," *Financial Times*, 9 November 1994, 3.
50. Ibid.
51. Richard Hottel, "Which Way Will the Oil Flow?" *Christian Science Monitor*, 4 October 1995, 19.
52. Ibid.
52. Boudreaux, "Caspian Connection," D5.
54. Wendy Sloane, "Azeri Thwarts a Putsch Linked to Oil Deal," *Christian Science Monitor*, 6 October 1994, 4.
55. Ibid.
56. Ibid.
57. Thomas Friedman, "Pipeline Politics," *New York Times*, 13 September 1995, A23.
58. Lloyd and LeVine, "Russia Demands Veto," 2.
59. Friedman, "Pipeline Politics," A23.

60. Ibid.
61. Ibid.
62. Ariel Cohen, "The 'New Great Game': Pipeline Politics in Eurasia," *Caspian Crossroads* (Spring-Summer 1996): 17.
63. Ibid.
64. Blank, *Energy and Security in Transcaucasia*, 9.
65. Ibid.
66. Ibid.
67. Daniloff, "Oil and Blood in the Caucasus," C2.
68. Robert Ebel, "The History and Politics of Chechen Oil," *Caspian Crossroads* (Winter 1995): 10-11.
69. Cohen, "The 'New Great Game,'" 17.
70. David Hoffman, "Chechnya, Moscow Sign Pipeline Pact," *Washington Post*, 9 September 1997, A16.
71. Ingwerson and Kohen, "At Your Local Gas Pump Soon," 6.
72. Martin, et al., *Maintaining Energy Security*, 47.
73. "Pipe Dreams in Central Asia," 38.
74. Ibid.
75. LeVine, "Caspian Sun on the Rise," A24.
76. Brill Olcott, "Oil and Politics in Kazakhstan," 22.
77. Diane Smith, *Central Asia: A New Great Game?* (Carlisle, PA: Strategic Studies Institute, 1996), 21.
78. Ibid.
79. John Lloyd, "Energy Crisis Deepens for Ex-Soviet States," *Financial Times*, 19 September 1994, 3.
80. "The State of Russia," *Time*, 27 May 1996, 64.
81. Stephen Kinzer, "Azerbaijan Has Reason to Swagger," *Richmond Times-Dispatch*, 14 September 1997, A4.
82. Ibid.
83. Ibid. Recent U.S. Senate investigations into the Clinton administration's campaign fund raising uncovered the fact that international oil financier Roger Tamraz donated \$300,000 to Democratic causes in 1995 to gain access to the White House to promote his pipeline project. Dan Morgan and David Ottaway, "Drilling for Influence in Russia's Back Yard," *Washington Post*, 22 September 1997, A1.
84. Kinzer, "Azerbaijan Has Reason to Swagger," A4.
85. Morgan and Ottaway, "Drilling for Influence," A15.
86. Ibid.