

# **THE CAUCASUS REGION AND CASPIAN BASIN: “CHANGE, COMPLICATION AND CHALLENGE”**

**By C W Blandy**

## **INTRODUCTION**

NATO has defence and security interests in the Caucasus region through Turkey as a member of the alliance. The West and a number of NATO member states also have important economic and commercial interests connected with the exploitation of hydrocarbon and mineral deposits in the Caspian Basin. International organisations, of which NATO states are also members, such as UNO and OSCE, are also active in a number of crisis areas in the region trying to facilitate settlement of disputes by peaceful means. There is much remaining from the legacy of past turmoil and the present changing balance of power not only to foster current disputes but to promote future instability and conflict in this volatile region, in time perhaps denying the full realisation of its economic potential.

The purpose of this paper, therefore, is to identify threats to the future stability of the Caucasus region and the Caspian Basin as a result of change, complication and challenge, which would hinder or even prevent the creation of the stable political and social environment essential for the economic development of the region.

### ***The Caucasus Region***

The Caucasus region, subdivided into the North Caucasus and Transcaucasus, interposed between the Sea of Azov and the Black Sea on the one hand, and the Caspian on the other, possesses geostrategic significance on account of the fact that it not only serves as a meeting place between East and West, namely Central Asia and Europe, but more importantly on a North-South axis. The land corridor of Transcaucasia facilitates contact or confrontation between European Russia and the southern regional powers of Turkey and Iran. On this same axis in a more general and scattered sense, there lies the division of influence between Christianity in its various forms, Russian Orthodox, Catholic, Armenian and Georgian Churches, and Islam with Sunni Muslim (Hanafi and Shafi'i schools) and Shi'i Muslim branches.

The North Caucasus, marking the southern boundary of the Russian Federation and the Transcaucasus buffer zone, containing the independent Republics of Armenia, Georgia and Azerbaijan, remain areas of direct and vital concern to Moscow, whose perceptions both in the historical past and now, remain ever sensitive to penetration by influence or to the possibility of actual physical threats to the territorial integrity of the buffer zone states and Russia posed by the southern regional powers. However, the Caucasus region as a whole remains a matter of intense interest and relevance to Turkey and Iran. The strategic importance of the Caucasus attains additional weight not only from the fact that the sheer scale of oil in the Caspian Basin, according to some estimates is regarded as a “Second Kuwait”, but that oil from there or from the Central Asian oilfields has to pass through the region or adjacent parts of the Russian Federation on its way to world markets.

***The Caspian Basin***

Exploration of the Caspian Sea and the area surrounding the Caspian Basin, including the northern and eastern littorals in Kazakhstan and Turkmenistan, has revealed significant deposits of oil and gas. Map 1 below shows the general location of these oil deposits.

**Map 1 - General Location of Oil Deposits in and around the Caspian**

To some extent the impact of the Chechen conflict and its aftermath have overshadowed these matters of economic long term interest which have the potential to

reshape the geopolitical structure of the Caucasus, the Caspian Basin and the Central Asian Republics, for:

*“In the next century, the Caspian Sea and the regions adjoining it could become the largest supplier of oil and gas in 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 even more long-term than the unstable Persian Gulf. According to different evaluations, oil reserves in the bowels of the Caspian amount to more than 13 milliard tonnes [13,000,000,000 tonnes]”<sup>1</sup>.*

Indicative of this economic potential are four agreements concerning hydrocarbon extraction from the Caspian Sea off the coast of Azerbaijan signed within the last four years, which only reflect a small part of the total oil deposits and does not include Kazakhstan’s or Turkmenistan’s fields.

**Box 1 - “Contract of the Century” signed on 20 September 1994**

Area: Azeri, Chirag and the deepwater part of Guneshli.  
 Announced Reserves: 510 million tonnes, realisable 150 million tonnes.  
 Capital Investment: 8 milliard dollars (8,000,000,000 US\$).  
 Participants: AMOCO - 17%; Exxon - 8%; Pennzoil - 4.8%; Unocal - 10.1%;  
 BP - 10%; RAMCO - 2.1%; LUKoil - 10%; Statoil - 8.6%; Turkish  
 Petroleum<sup>2</sup> - 6.7%; Itochu - 3.9%; Delta (Delta Pimes) - 1.7%.

**Box 2 - Contract for “Karabakh” signed on 10 November 1995**

Area: Karabakh.  
 Declared Reserves: 200 million tonnes, realisable 50 million tonnes.  
 Capital Investment: 1.5 milliard dollars (1,500,000,000 US\$).  
 Participants: Pennzoil - 30%; SOCAR - 7.5%; AGIP - 5%; LUKoil - 7.5%; LUK-  
 AGIP - 50%.

**Box 3 - Contract for “Shahdeniz” signed on 4 June 1996**

Area: Shahdeniz

<sup>1</sup> *Nezavisimaya Gazeta* No 101 (1426) of 4 June 1997, page 5, “*Na Kaspii stolknulis’ interesy mirovykh derzhav - Zapad stremitsa vytesnit’ Rossiyu iz etogo regiona*” by Kamilzhan Kalandarov.

<sup>2</sup> However, the Map of Oil and Gas Infrastructure in the Caspian Sea Region, Foreign Joint Ventures, November 1996, 740869 (RO2051) 11.96, describes this company as TPAO.

Declared Reserves:	230 million tonnes.
Capital Investment:	4 milliard dollars (4,000,000,000 US\$). This sum may increase due to working difficulties
Participants:	SOCAR - 10%; LUKoil - 10%; OIEC - 10%; Elf-Aquitaine - 10%; TPAO - 9%; BP - 25.5%; Statoil 25.5%

**Box 4 - Contract for “Lenkoran-Deniz” signed in January 1997**

Area:	Lenkoran-Deniz
Declared Reserves:	120 million tonnes, realisable 20 million tonnes.
Capital Investment:	2 milliard dollars (2,000,000,000 US\$).
Participants:	Elf-Aquitaine - 75%; SOCAR - 25%.

## OUTLINE OF THREATS TO STABILITY

### ***The Legacies of History***

The Caucasus is a region of complexities, rich in the diversity of peoples, nations and language, but to an extent still bearing the scars of earlier Tsarist conquest and colonial rule. It remains a region exploited and impoverished by the legacies of the former Soviet Union, by the loss of history, literary heritage and Arabic scholarship. A region confused and still suffering from the adoption by Soviet Communist power of flawed administrative structures and nationalities' policy in the furtherance of 'divide and rule', as exemplified by the dearth of experienced political cadres at national and regional levels, the territorial-administrative divisions in the North Caucasus and the anomalies of the Treaties of Moscow (16 March 1921) and Kars (13 October 1921) which placed Christian Karabakh Armenian under the Muslim Azeri government of Baku. A region whose internal social fabric became distorted and complicated not only as a result of the mass deportation of peoples from the Caucasus during the Great Patriotic War between November 1943 and November 1944, but also from the consequences of a return from exile, where rehabilitation was the victim of bureaucratic prejudice and inertia, leaving territorial disputes which remain unresolved to this day, for instance the dispute over Prigorodnyy rayon between Ingush and North Osetian, or the one over the former Aukhovskiy (now Novolakskiy) rayon between Chechen and Lak in northern Daghestan. A region where the implication of such words as *perestroyka* or *glasnost*' had a singular impact on people by giving false promise to their aspirations, and which not only continued to remain empty, barren and unfulfilled but were to herald the onset of severe ethnic strife, enforced migration, economic deprivation and large-scale unemployment. In addition, much of the natural beauty of the region, to some extent complemented by attractive Tsarist buildings of the past, is now disfigured by hideous and unprepossessing utilitarian structures, striking in their unsightly sprawl, cloaking over once impressive and sightly skylines of lower foothills. Perhaps the most bitter pill of all is the traditional contempt and hostility of ordinary Russians, the 'power-wielding' structures in Moscow and the 'military' towards the indigenous Muslim mountain peoples of the Caucasus.

### ***The Problem***

However, as in the fairy tales of childhood, where a series of insuperable obstacles have to be overcome before the glittering prize can be obtained, the attainment of benefits following exploration, extraction, exploitation and the passage to world markets of the hydrocarbon riches of the Caspian Sea, further complicated by the weakening of Russian power and influence, are not without the dangers of collision and miscalculation in the geopolitical sphere. The belief that whoever secures the major share of oil pipeline transit will gain enhanced influence not only throughout the Caucasus and Central Asia but also on a global political scale, raises questions about

the future stability of the Caucasus region and Caspian Basin as implied by the current and future oil pipeline network traversing the Caucasus.

**Map 2 - Summary of Potential Oil Transportation Routes from Caspian Basin<sup>3</sup>**

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<sup>3</sup> Modified from 'Kavkasisches Roulette' by Michael Thurmann, Die Zeit, 18 July 1997.

### ***Increasing Dangers of Collision and Miscalculation***

Further evidence continues to accumulate on the waning of Russian influence in the Caucasus, in particular her inability to curb organised crime, restore law and order and provide security for the inhabitants of the North Caucasus, in turn raising the spectre of a repetition of the period immediately preceding the demise of Communist power in 1991, extending into and precipitating a period of chaos from 1992 onwards.

For working at six mutually inter-related and overlapping levels are: first, the slow-burning fuse and consequences of an enfeebled application of Russian power and influence; secondly, the legal confusion over the definition of the Caspian Sea's status and the inability to obtain agreement by all the five riparian states; thirdly, the emergence of historic, regional, power rivalry which is taking shape in a more subtle, but none the less ruthless form between Russia and Turkey, Turkey and Iran, and to a lesser extent between Russia and Iran, together with the possibility of proxy manipulation by minor players which may have the potential to attract major power interest, either on account of their hydrocarbon and mineral deposits or due to the suitability of their territory for the transport of oil; fourthly, the extension of Western influence through the presence of North American power, investment, and global corporate experience together with the return of traditional European commercial interest, acumen and technical expertise into a region and basin previously denied to the West; fifthly, relations between Russia and Islam, with the possibility of the complete loss to Russia of the whole of the North Caucasus and the establishment of an Islamic Republic stretching from the Black Sea littoral and Kuban' in the west to Makhachkala and the Caspian littoral in the east; finally, the no-less serious questions raised with regard to environmental and ecological issues, the plight of the Caspian Sturgeon (*Osetr*) in its varieties, Beluga (*Huso Huso*), Sevruga (*Acipenser stellatus*) and Ship (*Acipenser nudiiventurus*), the decline in the Caspian fishing industry to some extent caused by the negative effects of oil exploration in conservation areas and the real concerns generated by the rising sea level of the Caspian which already has not only affected the low-lying coastal areas, particularly in Azerbaijan, but in the future could affect a multitude of onshore oil installations, anchorages and moorings.

## **WEAKENING OF RUSSIAN POWER: CHANGE**

### ***Lack of Policy in North Caucasus***

Five years ago, an unattributed article<sup>4</sup> noted the content of a report on the situation in the North Caucasus by military intelligence analysts of the North Caucasus Military District (NCMD). One should remember that the Ingush-North Osetian dispute had erupted explosively in October 1992, there was general agitation amongst the Cherkess and Abkho-Adyge peoples and Chechnya had already been ploughing its own course of *de facto* independence under Dzhokhar Dudayev for some 18 months. The document reportedly recommended the focussing of attention on three areas in the North Caucasus.

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<sup>4</sup> *Kuranty*, 28 April 1993 page 5, unattributed article "The Kuban' - A Bone of Contention".

**Box 5 - The North Caucasus, April 1993**  
**Analysis by Specialists of North Caucasus Military District**

**Areas requiring Special Attention**

**Zone of North Osetian-Ingush conflict.** This zone had developed into a 'smouldering' phase'. Threat of Chechen involvement in the conflict remained as before.

**The Trans-Kuban' Region.** Experts believed that tension around North Osetia, Chechnya, and Ingushetia detracted Moscow's attention from Kabarda, and it was specifically there that the possibility existed of a power seizure by the All-Adygeya Adyge Khase movement, since the popularity of the pro-Russian leadership was declining.

**The Daghestan Sub-Region.** The analysis emphasised that the disintegration of this multinational republic or its reorientation from Russia toward the possible Turkic-Islamic bloc under the aegis of Turkey (Azerbaijan, Tatarstan, Balkaria, Karachay) would be a geopolitical catastrophe for the Russian Federation, taking place on the borders of the Near East Theatre of Military Operations and one of the most dangerous for Russia.

**Conclusions**

It was necessary for the power structures of Daghestan and Kabardino-Balkaria to remain in the same form in which they existed then. The theory of the 'withdrawal' of Russia from the Caucasus that was elaborated at one time in Moscow was fraught with the danger of major upheavals in the whole state. Russia would hardly be able to separate its purely mountainous regions from itself without at the same time losing its main granary in the Kuban' and Stavropol'ye.

Even in April 1993, the specialists in NCMD believed that the North Caucasus could not only transform into a unified natural-economic system but into a political-economic system based on anti-Russian grounds, which would intensify Cossack separatism and bring the threat of a complete disintegration of the Russian Federation. They emphasised that Moscow lacked a properly researched, analysed and realisable policy for the North Caucasus.

*"The fact that Moscow still lacks a substantiated regional policy here, including a national one, is noted as one of the primary reasons for such a development of events in the North Caucasus. As a result, the Centre has lost its initiative, and lags behind the course of events. In the worst-case scenario, Russian policy in the North Caucasus will be transformed from a domestic to a foreign one"*<sup>5</sup>.

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<sup>5</sup> C W Blandy "Prigorodnyy Rayon: The Continuing Dispute (The Triangular Relationship of North Osetia, Ingushetia and Russia)" P26 CSRC September 1997 page 3. Subsequently, the view also came about that "the bloodshed which took place on the territory of Prigorodnyy rayon on the night of 30/31 October and the first days of November 1992 was in its own way a prelude to the tragic war in Chechnya in 1994-1996". The need to use troops from the Ministry of Defence in armed intervention into Chechnya tends to underline this statement.

From the Kremlin there has been and there still remains a lack of any coherent sustainable policy, consistency and direction of affairs in the Caucasus region as a result of a Hydra of competing power structures including the military, the Ministry for Foreign Affairs, the Ministry of Internal Affairs and the 'Oil Lobby'. Not surprisingly this has led to seeming contradictory and uncoordinated actions in the region.

### ***Armenia and Nagornyy Karabakh***

One example which immediately springs to mind concerns Armenia and Nagornyy Karabakh. The position of Russia in relation to both the warring sides in the Karabakh conflict was never simple. In the main, it could be said that the driving motivation of Russia was to preserve its influence with both Armenia and Azerbaijan and to demonstrate, as the legal successor of the Soviet Union, its own ability to achieve the settlement of conflicts on the territory of the FSU. The initial chaos and contradictions in the formation of Russian external policy in general and in the Transcaucasus in particular were certainly reflected in the Karabakh conflict<sup>6</sup>. Divergences between ministries, inconsistencies in policy and contravention of the 1992 Tashkent Treaty on Collective Security were revealed last year, showing that in the matter of Armenia and Nagornyy Karabakh *“the resources and capabilities of the RF Ministry of Defence played a more important role, with the former [Defence Minister] Pavel Grachev as a much more important instrument of Russian policy than the Ministry of Foreign Affairs”*<sup>7</sup>. Box 6 below has further details on the role of the Russian Ministry of Defence in contravention of the 1992 Tashkent Treaty.

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<sup>6</sup> Following the collapse of the USSR, a period of shock and uncertainty ensued, with a debate concerning policy in the Caucasus. Variant 1 considered a Russian withdrawal from the Caucasus and establishment of frontiers with the North Caucasus republics which would not only lead to a decline in Russian influence but would leave Christian Armenia and Georgia surrounded by an 'Islamic Sea'. This would reverse Russia's traditional geo-strategic policy in the region which sought to retain a Transcaucasus buffer zone. Variant 2 was a continuation of the age-old policy of 'divide and rule' which in turn could accelerate the growth of national movements and the eradication of the present regimes in the Caucasus. Variant 3 envisaged that the only way Russia could maintain her influence in the Caucasus was to conduct relations as an equal and not as "Big Brother".

<sup>7</sup> *Nezavisimaya Gazeta* No 116 (1441) of 27 June 1997 page 1 *“Novyye fakty postavok oruzhiya v Armeniyu”* by Il'ya Maksakov

**Box 6 - Involvement of Russian Ministry of Defence in Illegal Arms Shipments<sup>8</sup>**

“They were all directives of the General Staff of the Armed Forces RF signed by the Chief of the General Staff Mikhail Kolesnikov at different periods between September 1994 and February 1996.”

“Reporting on the results of his investigation at a sitting of the *Gosduma* on 2 April 1997, Lev Rokhlin announced that no one could make a significant step in the Ministry of Defence without the authority of Pavel Grachev. The facts which had been uncovered earlier were about the transfer of weapons belonging to the Russian group of forces in the Transcaucasus and concerning the transportation by air of arms and ammunition from military bases in Mozdok [North Osetia] and Akhtyubinsk [Kazakhstan].”

“Information was also forthcoming about the transportation of ammunition from Mozdok through Novorossiysk and Batumi by naval vessels. However, the delivery routes were varied. Thus in September 1995 in addition to Directive No 316/3/0220Sh of 18 August 1995, the Chief of Staff ordered the transportation by rail of 50 T-72 tanks from the Siberian Steppe Military District (sic) military base to the port of Novorossiysk. Further transportation was undertaken by the navy from Novorossiysk to the port of Poti. And finally, the transportation of 50 tanks from Poti together with 5 tanks from the Tbilisi military base to the Georgian station of Akhalitsye for the handover of the load to the consignee representatives. The whole deal cost US\$ 1 mlrd (US\$ 1,000,000,000).”

However, as a result of the Caspian oil project the Russian position on this matter was also of great interest in the corridors of government departments and the political establishment concerned with raw materials and resources. This in turn has been instrumental in bringing the Russian line closer to that of the other co-chairmen of the OSCE Minsk group on Nagornyy Karabakh, the USA and other Western states. Against expectation, the arrival of Yevgeny Primakov in the Russian Ministry of Foreign Affairs did not change this approach but made this official policy and furthermore:

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<sup>8</sup> Ibid.

*“The Ministry of Foreign Affairs lapsed into silence on the theme of the non-regulation of the status of the Caspian and abandoned making warnings about the vagueness of the international legal basis of oil deposit ownership. At the same time efforts were undertaken and continue to be undertaken by the Ministry of Foreign Affairs for the speediest resolution of the Nagorno-Karabakh conflict on conditions and terms close to those of Azerbaijan”<sup>9</sup>.*

In particular, Russia did not support Armenia at the OSCE Minsk group meeting in Lisbon, when the OSCE adopted the Azerbaijan formula for the settlement of the Karabakh conflict. After the Lisbon meeting the Russian representatives in the negotiation process acted closely with the West, for in the course of their visit to the Transcaucasus in July, the co-chairmen of the Minsk group agreed a settlement plan based on the principles of the *status quo ante* which required the return of Shusha and Lachin to Azerbaijan. This clearly demonstrated Armenia’s isolation. The growing influence of the ‘Oil Lobby’ is also seen in the possibility of compromise between Russia and Kazakhstan on ‘the riches on the sea bed’ of the Caspian. This is examined later.

### ***The Chechen Conflict***

This lack of effective policy from the Centre was dramatically demonstrated by the armed intervention of Federal Forces in Chechnya on 11 December 1994. It is difficult to refute the argument that, had there been a well thought out, developed and effective policy in the North Caucasus, based on the Constitution of the Russian Federation, on agreement, cooperation and participation by the peoples of the North Caucasus, instead of the badly flawed, ill-prepared and ineffective measures of dubious legality implemented by the security services in their attempt to overthrow the Dudayev regime, there would possibly have been no armed intervention and no Chechen conflict.

This situation was further complicated by the various rival factions within the Kremlin in their bids to retain power, influence and in particular unrestricted funding during a period of financial stringency. The emergence of an increasingly influential and hard-line group, consisting of Major General Aleksandr Korzhakov, Head of the Presidential Security Service, Sergei Stepashin, Director of the Federal Counter-Intelligence Service (FSK), Viktor Yerin, Minister of Internal Affairs and Nikolai Yegorov, nominated as Yel’tsin’s special representative in Chechnya, was to have profound implications for Russian politics, for the influence of this cabal was beyond parliamentary control.

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<sup>9</sup> NG - *Stsenarii*, No 9 August 1997 pages 4 and 5.

*“As with the decision to intervene in Afghanistan in 1979, policy over Chechnya seems to have been the product of informal “kitchen cabinet” deliberations by a handful of grandees driven above all by personal and institutional self-interests* <sup>10</sup>.

One of the results of Russian armed intervention between December 1994 and the official termination of the conflict on 31 August 1996 has been the all too obvious fact that this adventure for the Russians ended in an ignominious and humiliating defeat. Nowhere was the incompetence of the Russian military more devastatingly demonstrated than at Pervomayskoye between 10 and 18 January 1996. Not only was there no policy from the political leadership of the country on the North Caucasus, but there was a total lack of direction from military authorities. Both of these deficiencies were responsible, not only for the untidy outcome at Pervomayskoye, but for the day to day, slow but inevitable destruction of the one-time legendary Russian Army. The Pervomayskoye operation, without any shadow of doubt, provided clear evidence of the incompetence and unreliability of the Federal Armed Forces as an instrument of government.

### ***Legacy of Chechen Conflict***

Despite the Khasavyurt Accords which brought an official cessation of conflict between Russian and Chechen, the situation in the North Caucasus remains pregnant with continuing instability and the spectre of future conflict, as a result of kidnapping and hostage taking on the one hand and on the other the lack of implementation by Moscow of the majority of agreements signed by Moscow and Groznyy. However, the main factor leading to a sense of universal uncertainty throughout the North Caucasus is the failure to reach agreement on the future status of Chechnya. This in itself makes it difficult for the republics surrounding Chechnya to come to some form of common *modus vivendi* and *modus operandi* with the Chechen authorities. The situation is one which can only be solved at the Presidential level. A visit by President Yel'tsin to Chechnya would not only boost the rational and moderate line pursued by President Maskhadov but would also provide evidence to the other Muslim peoples of the North Caucasus that the President of the Russian Federation was aware of the problems, that he was interested in solving them and furthermore would act in a concrete manner.

***Unrest in Daghestan*** Perhaps one of the most serious consequences of the Chechen conflict is the gradual breakdown of law and order in Daghestan. As noted above, the political power structures in both Kabardino-Balkaria and Daghestan are vital for Russian control of the North Caucasus.

From a Russian perception, Chechnya is faced with a prolonged internal-political and economic crisis without actually having achieved independence. The surrounding republics of the North Caucasus, including Daghestan, not having participated in the war, have a far better life. The Chechen clans, who thrived on the war, live in provocative luxury in Chechnya itself but along the borders, the people are on the

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<sup>10</sup> Dr Mark Galeotti, *“Decline and Fall - Moscow’s Chechen War”*, Janes Intelligence Review, February 1995, Volume 7, Number 2, page 50.

brink of extinction. At any moment the actions of the ideological and religious drug could lead to an explosion. To get round this, Groznyy has only one way out, to direct all its energy of hate on a breakthrough through Daghestan to the Caspian. But in this Chechnya cannot openly assault Daghestan. Instead, Chechnya leans on separatist forces in Daghestan by any means, including illegal ones, to facilitate the ascent to power in Daghestan of pro-Chechen and anti-Russian leaders with the aim of achieving the creation of a single Islamic state in Daghestan and Chechnya. Chechnya would then have claims on the regional leadership.

Against such a background, again according to Russian views, a closing up of influential interests in both republics is taking place. In its Daghestan policy, the Chechen leadership is orientated on the three most influential forces in the republic which are capable of playing a role in the realisation of such plans. The first force is a combination of the powerful religious factors, military experience and the potential of the Wahhabi movement in Chechnya and Daghestan. The second force by which the Chechen authorities set serious store are the national movements both in the republic and throughout the region. Here special hopes are lodged on the leaders of those national movements which supported direct contact with the Chechen military leadership during the period of combat operations, and at the present time have their own armed groups. Finally, Russians believe that the Chechens consider people of influence in the present Daghestan government are the third force with potential to change the situation in the republic into the required channel. Obviously, here they have in mind the ambitious strivings of individual politicians who are not concerned with the interests of security of the republic and Russia as a whole. Further tightening of border controls or armed conflict on the territory of Daghestan, especially with army interference, gives the Chechens the possibility to act not in the role of an aggressor but as one coming to the aid of the Daghestanis in a holy war against Russia.

All these groups and forces over a long period time in one way or another have become involved in a "strategic partnership" with the Chechen politico-military elite, and especially with the irreconcilable opposition under Chechen field commanders such as Salman Raduyev and Khattab. The first two forces mentioned above possess their own armed formations with the experience of combat operations and capable, when the occasion arises, of using weapons or threatening their use for the attainment of political objectives. The Buynaksk raid of 23 December 1997 underlines the ineffectiveness of Federal armed forces.

**Box 7 - The Buynaksk Raid - a Threat<sup>11</sup>**

"According to some data, the raid of fighters Raduyev and Khattab which took place last month on the military unit in the Daghestan town of Buynaksk was in its own way reconnaissance by battle, and once again demonstrated that lamentable state in which the Armed Forces and other forces in the North Caucasus are found at present, of complete demoralisation and absolutely incapable of carrying out the direct responsibilities and obligations for the protection of Russia and its citizens. As the General Staff specialists consider, if the Chechen leadership with Maskhadov and Basayev decide in the immediate future on massive-large scale aggression, then after a week's immediate preparation, within 2-3 days without effort the bandit formations

<sup>11</sup> *Zavtra* No 2 (215) of January 1998 "Wahabbity budut bity - yesli ne naidut 'osetinskogo Gorbacheva'" page 1 by YE Fedorov.

would occupy the whole territory of Daghestan, extend to the Azerbaijan border and Caspian, capture the military base in Mozdok and receive by that the very newest capabilities for the spread of a *Jihad* to Kabardino-Balkariya, Karachayevo-Cherkessiya and Adygeya, and the organisation of extortionate raids on Stavropol'ye, the Kuban' and Astrakhan. The Kremlin leadership, in view of the absence of political will, is unable in any way to resist an armed incursion. More than that, in the Kremlin they know about armed aggression quickest of all from the reports from the mass media.”

The third force, representatives of government and quasi-official structures (including criminal ones) on account of the spread of their narrowly grouped interests could wield as much in the way of effective power and influence as the first two groups of armed fighters.

The power structures of Daghestan are carefully designed with checks and balances to provide a degree of stability and fairness amongst the 14 titular nationalities of Daghestan. Any moves by politicians to alter it, or to introduce a presidential system as opposed to the present elected Chairman of the Gossovet with a Prime Minister from a different nationality, could well exacerbate the situation in the republic and lead to further waves of violence, bombing and kidnappings. Serious economic difficulties provide a fertile ground for further criminal acts and insurrections.

### ***Catalyst for Unrest Throughout North Caucasus***

On a wider scale, Map 4 below shows the growing incidence of terrorist acts in and around the North Caucasus, whilst Box 8 gives some statistics released by the Minister of Internal Affairs, Army General Anatoly Kulikov, in September 1997 at Pyatigorsk.

#### **Box 8 - Crime Statistics in North Caucasus<sup>12</sup>**

1. In the first seven months of the current year in the North Caucasus region 164,000 crimes were registered, out of which more than half (55.2%) were serious or extremely serious.
2. Characteristically, in spite of an overall tendency for [crime in] Russia to drop, the growth of crime was noticeable in the Republics of Kabardino-Balkaria, Karachayevo-Cherkessia, North Osetia-Alaniya and Stavropol'Kray.
3. In North Osetia-Alaniya, Kabardino-Balkaria, Krasnodar Kray, and the oblasts of Astrakhan, Volgograd and Rostov the number of intentional committed murders had increased.
4. In the first ten regions of Russia where the greatest number of crimes was committed involving the use of firearms, gas weapons, ammunition and explosives Krasnodar Kray headed the list (920 crimes), Rostov oblast' (855) and Stavropol' Kray (516). In the Republics of North Osetia-Alaniya, Ingushetia and Daghestan a much lower revelation of similar crimes is noted (30.7%, 41.8% and 45.1% respectively).
5. 80% of all the registered facts of terrorism on the territory of the Russian Federation take place in the North Caucasus. As I have already remarked earlier, the main sources of both criminal and political terrorism are situated on the territory of the Chechen Republic.

<sup>12</sup> *Shchit i Mech* No 101 (513) of 5 September 1997 “*Mirolubiye - ne priznak slabosti*” page 2.

6. In the overall reduction in the country of the number of robbery assaults their number has grown in the Republics of Kabardino-Balkar, Karachayev-Cherkessia, North Osetia-Alaniya, the Krays of Krasnodar and Stavropol', the oblasts of Astrakhan and Rostov.

7. The rate of growth of registered crimes committed under the influence of narcotics has risen in the Republic of North Osetia-Alania to 84.2% and in Stavropol' Kray to 57.6%. Operations with oil and oil products, and the illegal production and circulation of alcohol products continue to remain in the sphere of increasing criminal interest in the North Caucasus.

Furthermore, it should be remembered that preservation of Russian influence in the Transcaucasus is dependent on complete control by the Russian authorities in the North Caucasus, including the maintenance of law and order throughout the region: at the present time this is quite clearly not the case. However, it is possible that financial constraints may even force a Russian withdrawal from the North Caucasus. Even a partial withdrawal would leave a vacuum of power and precipitate disruption and potential miscalculation in the region. Russian reaction is likely to be increasingly pronounced as she strives to maintain her position against the influences of regional powers, Islam and Western economic penetration. It is possible that Russia may over-react to the threats to or the loss of her traditional sphere of influence, possibly even resorting to the use of nuclear weapons. Indicative of the last possibility is the repeated 'suggestion' by General Kulikov, Minister of Internal Affairs, of making a 'strike' against Chechnya to prevent terrorism from spreading throughout the North Caucasus.<sup>13</sup>

## **LEGAL CONFUSION OVER STATUS OF THE CASPIAN: COMPLICATION**

### ***The Problems of Definition***

The Caspian's ambivalent status not only impedes the potential for returns on investment in exploiting and transporting the hydrocarbon deposits and other riches below the Caspian's sea bed but this uncertain situation also poses questions for the preservation of regional stability. In studying the processes which are taking place around the Caspian, it is not difficult to understand that a clear, uncomplicated and precise definition of its status is far from being welcomed by all the interested riparian states. Therefore the decision-making process on this question has tended to be one of deliberate and successive protraction.

### **Box 9 - Issues on the Status of the Caspian**

#### **In General**

**Issue 1.** What is the status of the Caspian Sea under International Law: is the Caspian owned in common and thus subject to the joint sovereignty of all the littoral states, or is it capable of being delimited? Is it a lake or can it really be regarded as a sea?

**Issue 2.** If the Caspian can be divided, what are the principles of delimitation which should apply? Under what guidelines and past precedents should delimitation be accomplished?

#### **In Particular**

<sup>13</sup> See, for example ITAR-Tass reports on 6 January 1998.

**Issue 3.** Is the stance of Baku legal, in assuming ownership and total control of the shelf abutting the Azerbaijan part of the western Caspian littoral?

**Issue 4.** How valid is the Russian view, supported by Iran, that all the riparian states have a right of partnership in any exploitation undertaken in the Caspian, with the attendant rider that there are grave ecological and environmental concerns that require attention by all of these states?

There is no direct historical precedent which can help to illuminate a solution to the status of the Caspian. There are accounts of military campaigns, a continued Russian naval and military presence and the signing of a number of treaties in the first instance between Russia and Persia and in the second between the Soviet Union and Iran concerning 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 for approximately 200 years, together with a Soviet one for some 70 years, with the Soviet-Iranian Treaties of 1921 and 1940 still operating for the benefit of Russia today. Whilst Russia can quietly use these two treaties of 1921 and 1940 as pressure points against the activities of Azerbaijan and Kazakhstan by way of emphasising that the Caspian is an object of common use by the Caspian countries, open for utilisation by them on an equal basis, these treaties cannot be used to define the status of the Caspian, for these documents only applied to navigation and fishing leaving the problem of the exploitation of mineral resources, including oil and gas, outside the scope of the treaties. Furthermore, the United Nations Convention on the Law of the Sea 1982 does not cover the precise status of the Caspian Sea.

### ***Original Positions of the Five Riparian States***

Summaries of the positions adopted by the states with regard to the status of the Caspian Sea are contained in Boxes 10 to 15 below.

#### **Box 10 - Russian Position**

**Status:** The status of the Caspian is unique. The decision on division of the sea demands a completely new approach to be decided by the Caspian states themselves. Russia champions the concept of 'enclosed body of water' with a 20 mile strip of territorial waters plus an additional 20 mile exclusive economic zone leading to common ownership of the central area of the Caspian by all riparian states and subject to agreement by all states.

**Allies:** Iran and Turkmenistan.

**History:** Soviet-Iranian Treaties of 1921 and 1940 imply the Caspian as an object of common usage by riparian states, with obligations under previous international treaties. There can be no unilateral actions by Caspian riparian states. The former Soviet Republics are not only bound by the Soviet-Iranian Treaties as under International Law but also by the Alma-Ata Declaration of 21 December 1991.

**Comment:** Recent meetings, negotiations and agreements between the Russian Federation government, other organs and private companies in RF with the Azerbaijani government may come to be taken as modifying the Russian stance against the Azeri position of the 'border lake' concept by certain other parties, even though the joint operation of an exploitation project in the central part of the Caspian is in essence a projection of the common usage approach for the central Caspian portion. Russian approach to Azerbaijan could be further modified by factors such as: **1.** The pipeline arrangement from Baku via Grozny to Novorossiysk, including special clauses to accommodate Chechen requirements; **2.** Special deals with regions of Russian Federation, such as the Luzhkov agreement; **3.** The Kyapaz-Promezhutochnoye agreement; **4.** Negotiations on the Yalama deposit on the Azerbaijani-Daghestan border between LUKoil and Azerbaijan.

**Future:** Points to watch are negotiations involving LUKoil and Gazprom with regard to exploration and exploitation of central part of Caspian Sea.

**Box 11 - Azerbaijan's Position**

**Status 1:** 'Border lake' with sectors formed by central median line and internal boundaries which correspond to international borders of the Caspian states. Each riparian state in its own sector has exclusive sovereignty over biological resources, water surface, navigation, exploitation of the sea bed, beneath the sea bed and other activities in conformity with legislation of the riparian state.

**Status 2:** 'Open sea' concept with 12 mile territorial waters zone and exclusive economic zones not exceeding 200 miles, in agreement with central line principle.

**Allies:** Kazakhstan.

**Box 12 - Kazakhstan's Variation on Status:**

**Status:** Exclusive Economic Zones formed by central line equidistant from points on coast line.

**Comment:** Azerbaijan and Kazakhstan already operate by way of dividing the Caspian according to their own designs and in a unilateral manner. Iran, Russia and Turkmeniya considered such a position prohibited.

**Box 13 - Turkmeniya's Possible Change of Direction**

**Status:** Supported Russian and Iranian position of the Caspian common central area with limited waters under national sovereignty. However following outburst at February 1997 conference making territorial claims against Azerbaijan oil deposits in central portion of Caspian, its position is unclear.

**Allies:** ?

**Comment:** In claim for Chirag, Azeri and Promezhutochnoye has inadvertently supported the case for national sectors.

**Box 14 - Iranian Position**

**Status:** Supported Russian original approach.

**Allies:** ?

**Comment:** Approach now governed solely by Iran's economic interest. Exploitation rights in Shah-Deniz and hope for more could soften line toward Azerbaijan. Mutually beneficial relationship with Turkmenistan.

**Comparison of Yields from Oil Deposit Exploitation Rights**

The estimated yields from the exploitation rights under the concepts of a "border lake" or an "enclosed or landlocked sea" concept where the riparian states only possess a 12 mile territorial limit, but where every state has equal rights of access to the Caspian central area, are shown below.

**Box 15 - Oil Share with Caspian considered as “Border Lake”  
divided into Sectors**

Kazakhstan:	up to 4.5 milliard (4,500,000,000) tonnes (tut) <sup>14</sup> .
Azerbaijan:	up to 4.0 milliard (4,000,000,000) tonnes (tut).
Russia:	up to 2.0 milliard (2,000,000,000) tonnes (tut).
Turkmeniya:	up to 1.5 milliard (1,500,000,000) tonnes (tut).

**Box 16 - Oil Deposit Exploitation Rights as “Enclosed Sea”**

	<b>Within 12 Mile Limit</b>	<b>+</b>	<b>Central Area</b>	<b>Total</b>
Kazakhstan:	1.0	+	2.30	3.3 milliard tonnes(tut)
Azerbaijan:	1.0	+	2.30	3.3 milliard tonnes(tut)
Russia:	0.5	+	2.30	2.8 milliard tonnes(tut)
Turkmeniya:	0.3	+	2.30	2.6 milliard tonnes(tut)
<b>Totals:</b>	<b>2.8 milliard tonnes (tut)</b>	<b>+</b>	<b>9.20</b>	<b>12.0 milliard tut</b>

There is also a need to take account of Iran’s legally entitled exploitation sector, estimated to have exploitable deposits of 1.84 milliard tut, situated within the line Astara - Gasan-Kuli. The Iranian shelf reserves are estimated to be 800 million tonnes of gas and 100 million tonnes of oil. From the figures above it is not hard to see that Azerbaijan and Kazakhstan in both cases have the largest potential share of oil deposit exploitation rights, in particular under the “border lake” concept obtaining more than twice the amount that Russia would enjoy under the same concept of allocation. Under the “enclosed sea” concept the diapazon is more condensed. The estimated figures emerging from the “enclosed sea” concept would appear to be much fairer overall, remembering that the sea has in the past been regarded as an object of common usage for all riparian states.

***Shift in Position of Turkmeniya***

The approach of Turkmenistan, in common with Russia and Iran, was along the lines that the Caspian Sea was unique, where <sup>15</sup>:

*“ . . . current practice and norms cannot apply. The decision on the division of the sea demands non-traditional steps, to be decided by the Caspian states themselves. This approach is proposed by Iran, Russia and Turkmenistan. The supporters of this propose that each state should have its own border and fishing zone, a defined section of the shelf to exploit the mineral resources, the width of this zone to be determined by consultation*

<sup>14</sup> A ‘tut’ stands for “tonne uslovnogo topliva”, a tonne of standard fuel.

<sup>15</sup> Paper given by Yagmar Kh Kochumov, Adviser to the International Legal Department Ministry of Foreign Affairs, Turkmenistan on “*The New Legal Status of the Caspian*”, at an International Workshop held by CSRC at RMA Sandhurst in May 1996 on “*The Caspian: Politics, Energy, Security*”, page 3.

*with all the Caspian states. The remaining part of the Caspian - the so-called Caspian centre - to be determined by the principle of condominium - of joint exploitation”.*

Together with Russia and Iran, Turkmeniya had a complex position and not long ago spoke out against the division of the Caspian into national slices. However, after the February 1997 conference, when Turkmen President Niyazov announced that the disputed positions of the Azeri and Chirag oil deposits were actually situated on Turkmenistan’s territory, there was a fierce disagreement with Azerbaijan. The precise details of Ashkhabad’s claim against Azerbaijan refer to the oil deposits located almost due east to south east of the Apsheron peninsula, namely: the Chirag (Kaverochkin) deposit, the “26 Azeri (Bakinskykh Komissarov)” deposit and the Kyapaz (Serdar) formerly Promezhutochnoye, deposit. Turkmeniya has claimed full rights to Azeri and Kyapaz oil deposits and partial rights to the Chirag oil deposits.

It is the concept of the median line in the centre of the Caspian, equidistant from the shoreline of each riparian state and where they possess a territorial waters zone of 45 miles in the approach favoured by Azerbaijan and Kazakhstan which prompted the Turkmen bid. Map 3 below illustrates the problems over Azeri<sup>16</sup> and Kyapaz fields resulting from the Azerbaijan and Kazakhstan concept<sup>17</sup>.

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<sup>16</sup> Turkmenistan has a partial claim on the Chirag field and full claims on the Azeri and Kyapaz fields. See also C W Blandy “*The Caspian: A Sea of Troubles*” CSRC S31 September 1997.

<sup>17</sup> According to Russian Petroleum Investor December 1997/January 1998 p44, the median line and 45 mile territorial waters zones includes a further 16 oil deposits where ownership is disputed, namely, Severo-Kaspiskaya, Rakushechnaya, Zhemchuzhnaya, Tsentral’naya, Arabiyar-More, Godin, Suz-More, Gamurtsev, Konstandian, Kaliskiy, Zapadnaya Ogurchiskaya, Khanlar, Fersman, Veber, Konshina and Zapadnaya.

**Map 3 - Problems arising from Median Line Approach****Key:**

- - 12 mile territorial zone
- .- Sea delimitation by median line
- ~ 45 mile limit, supported by Turkmenistan
- A. Azeri Field
- B. Kyapaz Field

***Shift in Russian Position***

Mainly as a result of pressure from LUKoil, there is a possibility that the previous stance taken by Russia on the condominium approach may become less rigid. There are reports of an accommodation between Russia and Kazakhstan by which the bottom of the Caspian could reflect national sovereignty in accordance with the Kazakh and Azerbaijani view. However, Russian action would isolate Iran, with which Russia had previously been united on the status of the Caspian.

## REGIONAL RIVALRIES: COMPLICATION AND CHALLENGE

### ***Rivalry between Russia, Turkey and Iran***

The historic rivalry between Russia, Turkey and Persia over the Caucasus region is now taking place in a more subtle, but nonetheless ruthless form. Previously unforeseen opportunities have now emerged for Turkey and Iran to expand their spheres of influence north into the Caucasus and east to the independent Central Asian Republics. Turkey and Iran have themselves become rivals in picking over the more vulnerable southern portions of the former Soviet Empire. Russia is on the defensive where the growth of Turkish influence is concerned and is to some degree wary of Iran and the propagation of militant Islam. Rivalry between Russia and Turkey over pipeline routes is likely to intensify in the foreseeable future. For both Russia and Turkey, not only is oil and gas transit revenue important but the pipeline network is one of the key factors of maintaining and securing influence in the Caucasus and Central Asia. There is increasing scope for minor players to manipulate the situation to their advantage through the arrival of other players in the region.

Earlier papers<sup>18</sup> have detailed the alternative route for the transit of oil from the Caspian and Kazakhstan. In outline, these are:

1. **The Northern Route** Baku-Novorossiysk (Russia), with various options thereafter.
2. **The Southern Route** Baku-Supsa (Georgia), extending eventually to Ceyhan (Turkey).

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<sup>18</sup> See for example, C W Blandy "The Caspian: A Sea of Troubles" CSRC S31 September 1997. Other papers by the same author on the subject of the Caspian are: "Oil is not the Only Stake" CSRC S28 February 1997 and "The Caspian: A Catastrophe in the Making" CSRC S32, September 1997.

Quite clearly, usage of the southern routes from Baku would give Turkey greater influence than Russia.

Iran has developed an important communications network radiating outwards to Central Asia, Pakistan and China, from the north of Iran to its southern ports and extremities. Expansion of communication links for commerce and trade is an effective propagator of influence. This may also benefit Russian interests but run counter to Western ones in the future. It also raises the question of the attitude of the West to Iran over the Caspian. The *de facto* quarantine and virtual dismissal of Iran by the United States and the West may well be judged in the future as lacking in foresight, in particular with regard to the Caspian. A greater degree of cognisance should be taken of the fact that:

*“while Russians have been there for 200 years and the Turks have been there about 1,000 years, Iran has a long term cultural, historical and political place in this region which is more established than any other”*<sup>19</sup>.

Exclusion fans the embers of enmity. As a result of continued western inspired restrictions and ostracism, perhaps even a rapprochement between Iran and Iraq might develop on a basis of mutual necessity and the perceived impelling requirement for technological development and nuclear advancement<sup>20</sup>. Western ostracism of Iran is tending to bind Russia and Iran together into a loose framework.

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<sup>19</sup> Professor Fred Halliday in a paper given at the international conference on *Oil and Caviar in the Caspian: A Balance of Power and Balance of Interests* in London, 23-24 February 1995, “Iran and the Caspian”, paragraph 3.0. page 9. Menas Associates; September 1995.

<sup>20</sup> This might also be compounded by the fact that Russia could be seated at the same table depending on which faction holds sway in Moscow, which have already agreed to refurbish the nuclear power station at Bushehr and signed agreements with Iraq over future development of North Rumaylah and West Qurnah oil fields. See *Zavtra*, No 42, October 1995, page 1, “General N’ discusses”, where these issues are discussed at a press conference given by Russian Defence Minister Pavel Grachev on 25 September 1995. Amongst other matters, Russia may well sell nuclear and rocket technology to countries such as India, Iran, Iraq and Algeria. Additionally, Russia may form military alliances with these states, in particular with Iran. See also Dr M A Smith, ‘*Iran - New Focus of Russian Foreign Policy*’, CSRC F50, July 1995.

Whilst the old regional rivalries between Russia, Turkey and Iran certainly exist, it is also possible to state that in a very general sense there are two groups in terms of loosely defined political alliances: on the one hand Russia, Armenia and Iran and on the other hand the United States, Azerbaijan and Turkey. Not only are there pressures, antagonisms and uncertainties between the two groupings, as exemplified by the attitude of the United States to Iran or the attitude of the Russian government towards the activities of Turkey, but within each of these groups strains and tensions are also present. There are conflicting aspirations and pressures, such as those between the business community in Turkey, anxious to develop trade links across the border with Armenia, the “as yet undecided and unannounced” attitude of the Turkish government to this, the reaction of the President Aliyev against such a move or his irritation with the seeming passivity of the Turkish representative in the Minsk group OSCE. Another example is the possibility of a divergence between Yerevan and Stepanakert over Nagornyy Karabakh's demands for independent status, given the awareness of President Ter-Petrosyan, some time before standing down as President of Armenia, that the international community “*would not allow the current indefinite status quo in the conflict to continue for much longer*”<sup>21</sup>.

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<sup>21</sup> *Inside Central Asia* Issue 191 of 22- 28 Sep 97 page 1 and 4.

## **EXTENSION OF WESTERN INFLUENCE: CHANGE, COMPLICATION AND CHALLENGE**

Opportunities are set to open up through Western investment, for example in the newly independent Transcaucasus Republics of Georgia and Azerbaijan. Resultant economic influences in time could benefit the North Caucasus, altering or even reversing the traditional orientation towards Moscow of commerce and trade. This is already happening in the case of Chechnya, which is developing routes through to Georgia with investment and construction projects by British conglomerates such as McAlpine. However, Russia is not likely to welcome Western economic activity, assistance and investment in the North Caucasus.

The massive scale of investment and activity related to the extraction of hydrocarbon deposits in and around the Caspian Sea Region will undoubtedly have a striking effect on life in the region. Box 17 provides a small indication of the sheer scale of the number of oil companies involved throughout the Caspian.

### **Box 17 - A Small Indication of Oil Companies in the Caspian Basin<sup>22</sup> Designated Fields**

1. Azerbaijan International Oil Company (AIOC) with the Western Consortium in the **Guneshli, Chirag and Azeri** oil and gas fields (operational) - BP (UK), STATOIL (Norway), DELTA (Delta Nimir (Saudi Arabia)), TPAO (Turkey), LUKOIL (Russia), AMOCO (USA), UNOCAL (USA), EXXON (USA), PENNZOIL (USA), ITOCHU (Japan), RAMCO (UK).
2. **Karabakh** (field (operational): LUKAGIP (Russia/Italy), PENNZOIL (USA), AGIP (Italy), LUKOIL (Russia).
3. **North Apsheron** field (registered): with UNOCAL (USA) and AMOCO (USA).
4. ITOCHU, NW of North **Apsheron** (under negotiation).
5. **CHEVRON** field (under negotiation) W of AIOC/Western Consortium field.
6. **Shadeniz** oilfield (operational): BP, STATOIL, ELF (Elf-Aquitaine (France)), LUKOIL, TPAO, OIEC (Iran).

### **Sample of Companies throughout Caspian Basin**

ABSCOM (Moldova), AGIO (USA), AGIP (Italy), AMOCO (USA), ANGLO-DUTCH (USA), ATTILA DOGAN (Turkey), BMB (USA), BP (UK), BRIDAS (Argentina), BRITISH GAS (UK), CENTASPET (UK), CHAPARRAL (USA), CHEVRON (USA), COMMONWEALTH (Canada), DELTA (Saudi Arabia), DEMINEX (Germany), DRAGON (Ireland), ELF (France), ENTERPRISE (UK), EXXON (USA), ELM (USA), GENDOR (Cyprus), Grunwald (Germany), HOLLANDER (UK), ITOCHU (Japan), JKX (UK), KARCER (Czech Republic), LAND GENERAL (Malaysia), LARMAG (Netherlands), LUKAGIP (Russia/Italy), LUKOIL (Russia), MOBIL (USA), MONUMENT (UK), NAPHTHA ISRAEL (Israel), OIEC (Iran), OOC (OMAN), OPIC (Taiwan), ORYX (USA), OXY (Occidental (USA)), PANCANADIAN

<sup>22</sup> Map of Oil and Gas Infrastructure in the Caspian Sea Region, Foreign Joint Ventures November 1996, 740869 (RO2051) 11.96.

(Canada), PENNZOIL (USA), PETOIL (Turkey), PETROM (Romania), PETRONAS-CARIGALI (Malaysia), PREUSSAG (Germany), RAMCO (UK), REPSOL (Spain), SHELL (Netherlands), SNOW LEOPARD (Canada), STATOIL (Norway), TOTAL (France), TPAO (Turkey), UNOCAL (USA), VEGYEPSZER (Hungary), WHITEHALL (Germany).

There is one further point. Whilst there is much activity and interest on the part of Western countries, the increasing participation by Japanese companies together with Chinese interests, particularly in Kazakh oil, means that oil and gas deposits in and around the Caspian Basin now form part of a global arena, looking East as well as West.

Western involvement, investment and exploitation of resources in the Transcaucasus may well also run counter to Russia's perceived interests, negating her previous hegemony throughout the whole region, particularly with regard to any form of NATO widening or expansion. On this last point it is not only the more extreme Russian press which is against any form of Western involvement and NATO in particular, but also the moderate and liberal press.

There is a Russian perception that the weight and influence of the USA grows in relation to the reduction of Russian weight and influence in the region.

**Box 18 - A Russian Perception of Scenarios involving  
United States Support for Azerbaijan** <sup>23</sup>

“Baku, having obtained political support from the American President, strengthens its political propagandist pressure on its opponents. Not excluding the fact that the USA is extremely interested in strengthening its position in Azerbaijan, Washington starts making new concessions to Baku, with provision of economic aid, exerting pressure on Armenia using key economic levers. Everything is directed to an outcome where NK fails to be a real military-political force. In this context even the position of Armenia is sharply weakened with the result that she fails to play a role of a real military-political force in the Transcaucasus. **The weight and influence of the USA grows in relation to the decrease in and reduction of Russian weight and influence in the region.** It is evident as well that in the pro-Baku position of the USA, Russia risks losing her influence in Armenia with all the consequences which flow from it.”

**Escalation of Situation by Azerbaijan**

“However, it is possible to postulate a scenario in which Azerbaijan draws close to escalating the situation some time in the not too distant future, although the Azerbaijani army, despite the provision of military expertise and training by people from outside Azerbaijan, will require more than a year to make it combat effective. Moreover, there could be a basis to suppose that the Azerbaijan government could attempt to escalate the situation using the oil map as a trump card, not excluding the use of disinformation about provocation on the Armenian border. There is little likelihood of resumption of combat operations by the Karabakhtsi.”

**After Achievement of a Settlement**

<sup>23</sup> NG - Stsenarii, No 9 August 1997 page 2.

“Although the plan also envisages extensive self-government for NK, however, in no way does it take account of Azerbaijan’s internal political realities which inevitably could advance preconditions for squeezing out the Armenian majority under the semblance of creating a multi-ethnic NK. If the plan starts to be implemented, then the question of NK’s status may never be decided, in as much, that after the return to Azerbaijan of all the territories occupied by the Armenians and Shusha, Azerbaijan loses all interest in the question of guaranteeing the status of NK and the security of its Armenian population. From a Russian perception, **“the demands for Nagornyy Karabakh to approve such a plan is akin to the demand for Israel to leave the Sinai peninsula without signing the Camp David agreements”**. The possibility of the situation destabilising in Azerbaijan after the departure of Geidar Aliyev from the political scene must also not be ignored.”

## DEVELOPMENT OF ISLAM: COMPLICATION AND CHALLENGE

### **Sufi Brotherhoods**

Islam and the Sufi Brotherhoods have been successful in maintaining a high level of religion within communities. Sufism has become an increasingly politicised vehicle, gaining in power as a result of the movement to the towns and cities of the north east Caucasus. Islam is expected to obtain further impetus as instruction and learning in Arabic and further training of clerics is completed in Middle East countries. Sufism should be regarded more as a factor which cements Islam, preserving social cohesion and defending the traditional way of life and customs in the North Caucasus than as a fundamentalist, evangelist movement bent on conversion and spreading a particular brand of Islam.

### **Growth of Wahhabism**

Growth of Wahhabism could lead in the first place to more anti-Russian violence and action in Daghestan or other North Caucasus republics adjacent to Chechnya and Daghestan. In particular Wahhabism could involve attacks against the Russian military and internal troops or even turn into inter-Muslim strife. Unlike Sufism the advent of Wahhabism is proving to be a destabilising factor in the North Caucasus. Box 19 below provides a short ‘portrait’ of Wahhabism.

#### **Box 19 - Wahhabism<sup>24</sup>**

1. Wahhabism is a religious-political movement in Sunni-Islam, which grew up in Arabia in the middle of the 18th Century. Its leader and exponent was Muhamed Abd-al’-Wahhab. The essence of his movement consists of a strict monotheism: Allah - is the single creator and only he deserves adoration.
2. The Wahhabi sect is close to the official ideology of Saudi Arabia. In the USSR, the first Wahhabis began to appear at the beginning of *perestroyka*. In Chechnya and Daghestan the numbers of Wahhabi adherents rose sharply after the commitment of Russian troops into Chechnya.
3. To aid the Chechen fighters, Wahhabis came from the Near East. A special detachment of like-minded people was formed under the leadership of the Jordanian of

<sup>24</sup> *Nezavisimaya Gazeta* No 11 (1582) of 27 January 1998 page 2 “*Chast’ Musul’man gotova k gazawatu*” by Igor’ Rotar’.

Chechen ancestry, Khattab. Many Wahhabity from Daghestan fought in this detachment.

4. The centre of Wahhabism in Daghestan is Karamakhi.

### **Creation of North Caucasus Muslim Republic**

The creation of a North Caucasus Muslim Republic has been on the agenda of the Confederation of the Peoples of the Caucasus (KNK) for a long time. The objectives of the KNK are of concern to Moscow, namely: first, the restoration of the Mountain Republic of 1918 as a federation stretching from the Kuban' to Makhachkala, based on the establishment of a capital at Sukhumi and a common cultural heritage based on Islam, uniting the Muslim peoples of the North Caucasus, testifying to a shared historical experience of Russian oppression resulting from Tsarist expansion and the 'ills' of Communist power; second, the avoidance of a premature privatisation of land due to fears that new conflicts will arise in the densely populated area amid concerns that the 'nouveau riche' would also buy up land. From the perspective of the ethnic Russian population in the North Caucasus, KNK's vision is entirely negative. As recent events have shown however, the KNK has only been active in Abkhaz and South Osetian conflicts against Georgia. The credibility of the KNK has suffered, because it has not played an active role in Chechen conflict or its aftermath, it has not distinguished itself over the dispute in Prigorodnyy rayon between North Osetia and Ingushetia.

There is a view that Chechnya will not be able to survive on its own from the standpoint of the economy unless it is combined with Daghestan in some form of an Islamic Republic forming a much larger economic unit with access to the Caspian Sea.

From a Russian perception, a *de jure* independent Chechnya would speed the process of disintegration in the North Caucasus, leading to the creation of an Islamic state. However, the question may actually be of a far simpler nature. It is not so much that the Chechen leadership wants an Islamic Republic stretching from Makhachkala to the Kuban', but just that the Chechens want to live their own lives without interference from Moscow. The break up the Checheno-Ingush Republic, when Ingushetia in 1991-92 wished to stay within the Russian Federation because the Ingush felt they would receive better treatment from Moscow over Prigorodnyy, was achieved without rancour, demonstrating the Vainakh nation's ability to run their own affairs.

In the North Caucasus there is a danger that Islam or rather extreme Political Islam could grow as a result of the vicissitudes, dashed hopes, negated aspirations and lack of opportunities for the indigenous population arising from enforced migration, economic deprivation and lack of employment. In Chechnya only 10% of the population have legal legitimate employment, in Daghestan 40% are unemployed. In Daghestan over 60% of the population live below the poverty line. Unless practical steps are undertaken now this problem is likely to deteriorate further.

## **ENVIRONMENTAL AND ECOLOGICAL ISSUES: COMPLICATION AND CHALLENGE**

Whilst the Caspian region is becoming tense and highly explosive due to rekindled regional rivalries, intensified by the arrival and presence of new competitors from the

West, there is an even greater, perhaps earlier, danger about which politicians and oilmen remain silent, namely, the ruin of the Caspian's unique ecosystem which could soon lead to an irreversible environmental catastrophe. These problems are attributed to the violation of the former well-understood, accepted and practised norms in the regulation of the Caspian and the present lack of control in oil exploration operations by some of the newly independent Caspian riparian states, aided and abetted by firms from the USA.

The general ecological situation in the region is near to catastrophe. Besides the rising sea level and the flooding of coastal zones in Astrakhanskaya oblast', the Republic of Kalmykia (Russian Federation) and the independent Republic of Azerbaijan, the problem of increasing saturation and greasiness of the soil in connection with the unsuccessful land reclamation scheme in Kalmykia further exacerbates the situation.

**Box 20 - Predictions of Rising Caspian Water Levels<sup>25</sup>**

1. By the year 2010 the water level will rise by 25 metres.
2. In Azerbaijan, 800 km of coastline run the risk of flooding.
3. Width of the maximum area of flooding is 25-35 km, and to a lesser degree 35-40 km.

Already there is serious flooding of arable land in Lenkoran-Astara rayon. In the danger zone there are towns and population centres with an overall population of 700,000 people; a number need urgent evacuation. There is also a requirement to realign roads along the coastline from Daghestan to Astara. In addition a need also exists to move 200,000 km of electricity power lines from this zone. All the sea and permanent platforms, permanent buildings and moorings in the port of Baku are under threat from flooding. The possible direct damage is estimated at US\$ 2 milliard (2,000,000,000) and indirect at US\$ 4 milliard (4, 000,000,000).

Another ecological aspect, which is being caused by hasty exploitation of the coastal shelf and resultant pollution, is the threat of the complete destruction of sturgeon and other aquatic forms of life, fish and plants. Some *"80% of this fish and black caviar are obtained from the Caspian Sea aquifers adjoining the Volga basin"*.<sup>26</sup>

Along the Azerbaijan coastline sturgeon stocks face the threat of extinction owing to the development of offshore oilfields. It is believed that the development work on the Azeri, Chirag and Guneshli fields has produced a concentration of hydrocarbon waste

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<sup>25</sup> *Nezavisimaya Gazeta* No 101 (1426) of 4 June 1997, page 5, "Vo chto oboydetsa kaspiyskaya Neft' - put' k realizatsii dogovorennosti mozhnet okazat'sya ves'ma slozhnym" by Karine Gevorgyan.

<sup>26</sup> *Nezavisimaya Gazeta* No 156 (1481) 22 August 1997 page 5 "Kaspiyskoye More: Ryba ili Neft?" by Professor Vyacheslav Zilanov.

which is three times higher than the permitted norm. This concentration of hydrocarbon waste is precisely in the area where large shoals of sturgeon spend the winter months. The concentration of hydrocarbon waste amounts to:

*“45-50 mg per litre of water, which is permitted by the standards for an open body of water, as in the case of the North Sea . . . when the concentration of oil waste exceeds 15 mg per litre in the Caspian it leads to the formation of a film of oil which cuts off the oxygen to the water, killing off young sturgeon in the areas adjacent to the fields”<sup>27</sup>.*

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<sup>27</sup> BBC Monitoring *Inside Central Asia* Issue 172 12-18 May 1997, page 6, “Azeri sturgeon stocks under threat from oil extraction”.

The Azerbaijan government is faced with the dilemma of having to decide whether to give priority to oil extraction or to the preservation and development of sturgeon stocks and those of other fish. This issue was discussed over 30 years ago and the decision<sup>28</sup> then was to find in favour of developing the sturgeon fish stocks with the result that 12 sturgeon farms were built in the Caspian, three being in Azerbaijan with the intention of producing 120 million young sturgeon, 20 million to be reared in Azerbaijan. Currently, the rising Caspian water level has affected the main sturgeon farm at the mouth of the Kura River which is now under water with the result that the fish are now reared further upstream at Ali-Bayrami. Additional problems of pollution are also found in Azerbaijan. For instance the main beaches, Pirshagi, Shykov and Bilgah are now considered unsafe for bathing as a result of being polluted by raw sewage and effluent. Not only the present scale of environmental and ecological damage resulting from hydrocarbon waste but those estimated for the future and the threat of massive water inundation underline the need for one single international authority to manage, control and enforce compliance in the Caspian Sea and the territory surrounding its basin: too much water in the Caspian - too little water the Aral Sea. It is perhaps important to mention two other features of potential, future concern.

The first is centred on growing evidence that Russia is becoming increasingly active in pursuing her standpoint on the status of the Caspian, the way the Caspian should be managed and the increased level of involvement by Russian oil concerns. It would appear that greater use is being made of the ecological argument to support the continuation of the previously established regime, which incidentally would also yield Russia a greater portion of wealth from oil deposits.

The second point is one which seriously affects the 10 million or so people living around the Caspian whose employment and life is bound up in the fishing industry. Over-hasty exploitation by Western companies and others of the Caspian's oil deposits to the exclusion of its ecosystem could well rebound against the West, unless, in parallel, Western companies are seen to give thought to the development of universal awareness, the need to accept responsibility and implement measures devoted to preserving the ecosystem.

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<sup>28</sup> Ibid. In 1963 the decision was not difficult, for "90% of the world's sturgeon catch came from the Caspian, whereas the Caspian accounted for 3% of the oil extracted in the Soviet Union".

## SUMMARY AND CONCLUSIONS

### Summary of Dangers of Collision and Miscalculation

Serial	Mutually Inter-Related Level	Annotation
1.	Declining Russian power.	<b>Change</b>
2.	Legal confusion over definition Caspian Sea's status.	<b>Complication</b>
3.	Traditional regional power rivalries and proxy manipulation by minor players on account of the potential to attract major power interest, either through their hydrocarbon and mineral deposits or due to the location and suitability of their territory for the transportation of oil.	<b>Complication and challenge</b>
4.	Extension of Western influence through the presence of North American power, investment and global corporate experience together with the return of traditional European commercial interest, acumen and technical expertise.	<b>Change, complication and challenge</b>
5.	Relations between Russia and the Islamic World.	<b>Complication and challenge</b>
6.	Environmental and ecological issues in and around the Caspian Basin.	<b>Complication and challenge</b>

### Present and Future Flashpoints in the Caucasus

#### *Where Peoples Straddle International Borders*

Flashpoints will continue to exist where peoples straddle the international border between the Transcaucasus Republics and the Russian Federation, namely: conflict or a state of continuing unease between Georgia and Abkhazia, as the Abkhaz are related to the peoples of the North Caucasus and not to the Georgians; a state of continuing unease or instability between Georgia and the South Osetia because the South Osetians are related to the North Osetians and not to the Georgians; in Azerbaijan in and around Nagornyy-Karabakh with Armenian occupation of Azeri territory, and along the Russian Federation (Daghestan) - Azerbaijan border, where the Lezghins, one of the 14 titular nationalities of Daghestan, straddle the Daghestani-Azerbaijan border.

#### *Other Conflict Situations*

Other conflict situations could continue to include: the Ingush and the North Osetians over Prigorodnyy rayon; continued unrest after the conflict in Chechnya; ethnic/boundary disputes in Daghestan, including the Chechen Akhin and the situation with regard to Aukhovskiy rayon.

New trouble spots are likely to occur along proposed pipeline routes with proxy action by major pipeline rivals (Russia) or minor players (Armenia) through terrorist

organisations; along the northern route through Chechnya for Baku oil (Turkey) or through Kurdish territory in Turkey.

### **Trends in the Caucasus and Caspian Basin**

As well as an apparent weakening of Russian power and influence in the region, there are perhaps four important questions:

#### *Provision of Western Economic Aid and Assistance*

With the sheer scale of ethnic strife, enforced migration, economic deprivation and large-scale unemployment experienced by peoples of both the Transcaucasus and North Caucasus, is there not need to provide economic assistance and expertise from the West to reverse this downward trend as a matter of urgency, particularly in the north east Caucasus and before Political Islam can benefit from the ever-worsening situation? The situation is no less urgent now than when economic assistance was given to Russia at the end of 1994, despite Federal armed intervention in Chechnya.

#### *Western Isolation of Iran*

In view of the facts that Iran has been around the Caspian for longer than Russia and Turkey and furthermore that Iran has developed a comprehensive communications network linking north and south, east and west, is not the West being somewhat shortsighted in continuing to isolate Iran? One additional factor to consider is that Russia and Iran are being channelled into a partnership which in time might even welcome Iraq.

#### *Turkey and Membership of the European Union*

Continued rebuffs to the membership application of Turkey by the European Union may well sour relations between Turkey and the West to a point where Turkey becomes orientated to another objective which may not be of benefit to the West or compatible with its interests, noting the growth of militant Islam in Turkey in recent years. Early membership of the EU for other Eastern European countries, such as Bulgaria, in particular remembering the past persecution of Turkish Muslims in that country, would be a very bitter pill indeed for Turkey, a loyal, long-serving member of NATO.

#### *The Caspian Sea*

An agreement on status is urgently needed now to avoid miscalculation which could lead to serious confrontation in the Caspian. An agreement on status would also assist in the preservation of the Caspian ecosystem. As a result of this Western interests could suffer, and eventually require the participation of an international force, peace-seeking, peacekeeping or peacemaking, or additionally the provision of military engineering expertise in flood relief operations.