



## MIDDLE EAST INSIGHTS

# From Conflict to Consensus Energy Geopolitics in the Caspian Region

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### ABSTRACT

**On 12 August 2018, the five Caspian riparian states, Russia, Iran, Kazakhstan, Azerbaijan and Turkmenistan, signed the Convention on the Legal Status of the Caspian Sea, marking a breakthrough in resolving a longstanding maritime border dispute. Although the five still must agree on their borders on a bilateral basis, the document is a major step towards closer regional integration. This paper attributes the consensus on the legal status of the Caspian Sea to two geopolitical factors. First, the introduction of Western sanctions against Russia and Iran led to a convergence in the positions of these two countries on many issues, including the Caspian dispute. Second, China's increasing participation in Central Asia and the Caspian region prompted Russia and Iran to try to re-establish regional cooperation to counterbalance China's influence.**

Meeting in Kazakhstan for their fifth summit, the leaders of the Caspian riparian states, namely Russia, Iran, Kazakhstan, Azerbaijan and Turkmenistan, signed the Convention on the Legal Status of the Caspian Sea on 12 August 2018. The convention stipulated that each state shall have its own national sector of the seabed, while the surface of the sea shall be treated as international waters. Although the countries still must agree on a bilateral basis on maritime borders, the convention is regarded as a breakthrough in resolving a maritime dispute that had lasted for more than a quarter of a century. Notwithstanding the lack of attention in the international media, the document represents a major step towards integration in the region.

This paper will argue that consensus on the legal status of the Caspian Sea was reached mainly due to two geopolitical factors. First, the imposition of Western sanctions against Russia and Iran led to a convergence in the positions of these two countries on many issues, including the Caspian dispute. Second, the increasing participation of China in Central Asia and the Caspian region led to attempts on the part of Russia and Iran to re-establish regional cooperation to counterbalance China's

influence. China's Belt and Road initiative (BRI) as well as its cooperation with the Caspian states is expected to foster closer economic integration in Eurasia but it has also intensified competition between the geopolitical actors in the region.

## LAKE OR SEA?

Before 1991 the Caspian was shared by only two countries — the Soviet Union and Iran. With the disintegration of the Soviet Union, the number of riparian states increased from two to five: Azerbaijan in the south-west, Iran in the south, Kazakhstan in the north-east, Russia in the north-west and Turkmenistan in the south-east. The five littoral states could not agree on the demarcation of the sea and exploitation of its resources. Given that the Caspian seabed contains considerable oil and gas reserves, the issue of its legal status had been a contested issue for the last 27 years.

The key point of contestation was whether the Caspian is a “sea” or a “lake”. The legal status is important because it determines which international treaty applies in regulating ownership rights over the sea and its resources. If the Caspian were to be formally defined as a “lake”, norms of international customary law would apply. From the beginning of the dispute, Iran and Russia expressed solidarity in advocating the “lake” classification. They argued that prior to the disintegration of the Soviet Union, the sea was owned jointly by the two countries and that such regime should continue to hold. The two countries further claimed that joint ownership was needed to protect the Caspian ecosystem from environmental damage, caused by the irresponsible development of hydrocarbon resources.

Alternatively, if the Caspian would to be given the status of a “sea”, relations between the riparian states would be regulated by the 1982 United Nations Convention on the Law of the Sea (UNCLOS). According to UNCLOS, each state can claim a 12-nautical mile territorial sea area as well as an exclusive economic zone of 200 nautical miles. In addition, articles 69 and 124-132 of UNCLOS provide that landlocked states have a right to claim access to the high seas. Having the larger share of the Caspian hydrocarbon deposits along their coastal lines, Azerbaijan, Kazakhstan and Turkmenistan maintained that the Caspian should be classified as a sea and supported its division into national sectors as the “lake” status and joint approach would have threatened their newly won political and economic independence from the Soviet Union.

## ROUTES IN COMPETITION

With the demise of the Soviet Union in 1991, the three newly independent states of Azerbaijan, Kazakhstan, and Turkmenistan faced the challenge of delivering their oil and gas exports to world markets. All three are landlocked, which makes it impossible to ship to world markets directly from production sites. To deliver oil to the nearest distribution points, new pipelines had to be constructed. The three Caspian states had similar choices for future pipeline routes:

- (i) The “Western route”, lobbied by the United States and the European Union. This was designed to deliver oil and gas from the Caspian to Georgia and Turkey bypassing Russian and Iranian territories. Accordingly, the East-West Energy Corridor initiative

included the construction of energy transportation infrastructure connecting the Caspian region with Turkey through the Baku-Tbilisi-Ceyhan (BTC) and the South Caucasus pipelines. Furthermore, the three Central Asian states planned to build Trans-Caspian pipelines, connecting the East Caspian states (Kazakhstan and Turkmenistan) with Baku in Azerbaijan.

- (ii) The “Northern route”, actively advocated by Russia. This offered Azerbaijan and Kazakhstan access to the Russian port of Novorossiysk in the Black Sea. Moscow convinced Kazakhstan to build the Caspian Pipeline Consortium (CPC) pipeline, which runs through Russian territory.
- (iii) The “Eastern route”, offered by China, which by the beginning of the 21st century had gradually become one of the world’s biggest energy consumers. The Central Asian states’ desire to diversify their export routes matched China’s struggle to diversify its energy supplies.

In the end, the strategic competition among the regional and external powers greatly influenced the trajectory of the new pipeline routes in the Caspian region. The competition for the energy resources of the Caspian Sea had often been named the “New Great Game”, in which the Caspian region and Central Asia had been the playground.<sup>1</sup> Each of the global powers had its own agenda for influencing the direction of the pipelines. The United States advocated its East-West Energy Corridor initiative, which diverts the hydrocarbon resources of the Caspian region to the West, effectively bypassing China, Iran and Russia. Moscow had been attempting to maintain its influence in the region through different mechanisms, including regional integration within the framework of the newly created Eurasian Economic Union. China was a latecomer to the Caspian region as its investments poured into the region only from the late 1990s. In 2013, China announced its BRI initiative, which is designed to foster trade and energy cooperation within Central Eurasia and between Asia and Europe.

These competing routes gave the Caspian states economic options but with political obligations, limiting their ability to benefit from alternative options and build relations in different directions simultaneously. Several pipeline projects connecting the Caspian region and Europe had been suspended owing to lack of consensus on the legal status of the Caspian. For example, the Trans-Caspian Gas Pipeline (TCGP) was supposed to connect the Turkmen city of Turkmenbashi with Baku. However, facing strong opposition from Russia and Iran, the project was suspended. Another pipeline was expected to connect the Kazakh port of Aktau with the Baku-Ceyhan pipeline. However, this project also was shelved owing to the lack of consensus on the status of the sea. With the adoption of the new convention on the Caspian Sea, these restrictions may be lifted, although new pipeline routes still must be negotiated by the riparian states.

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<sup>1</sup> A. Cooley, *Great Games, Local Rules: The New Power Contest in Central Asia* (New York: Oxford University Press, 2012).

## IRAN'S RETURN TO THE CASPIAN

Economic sanctions re-introduced against Iran in 2018 might have pushed Tehran towards closer cooperation with Russia and the other Caspian states. Iran's position on its Caspian neighbours has been changing since the beginning of the dispute. During the first few years following the collapse of the Soviet Union, Russia and Iran jointly advocated the "lake" status of the Caspian and joint ownership of the sea and its resources. The uncertain status of the Caspian allowed the two countries to block new alternative pipeline route proposals. In the post-1998 period Russia changed its position to support the sectoral division of the Caspian Sea, while Iran insisted that until unanimous agreement was reached the Soviet-Iranian Treaty of 1940 should prevail to determine the ownership of the sea.

On the development of resources, Tehran favoured a "condominium approach", stating that all resources in the Caspian should be developed jointly. Iran's interests in the region are not only strategic but also economic since Iran claims oilfields in the South Caspian, such as Alov/Alborz. Tehran stood against the classification of the Caspian as a sea because it possesses only about 13 per cent of the Caspian shoreline, which would leave it with the smallest share of the territorial waters. Iran also opposed the idea of dividing the Caspian into national sectors, agreeing to accept this option only with the condition that each state would get one-fifth of the sea.

Because of the sanctions and pipeline projects that bypassed Iran, it had become an isolated regional player in the Caspian region over the past decades. Tehran's intransigent position on the legal status of the Caspian Sea also was an obstacle to its fruitful cooperation with its newly independent Caspian neighbours. However, Iran signed short-term swap agreements with these countries to provide energy supplies to its densely populated northern regions. The former Soviet states considered several possible oil pipeline projects via Iran, including a pipeline which can deliver oil from Kazakhstan's Kashagan field to the Persian Gulf. The signing of the Convention on the Legal Status of the Caspian could now potentially facilitate Iran's closer cooperation with the Caspian states.

## CHINA IN THE CASPIAN REGION

China's increasingly active participation in Central Asia's energy sector was one of the important factors that prompted the five Caspian states to agree on regional cooperation. First of all, in the absence of pipeline routes across the Caspian, China offered the Central Asian states alternative export routes in an eastern direction by constructing the Kazakhstan-China oil pipeline and Central Asia-China gas pipelines. Second, China's more visible participation in the region enabled the Central Asian states to play a balancing act vis-a-vis the various geopolitical actors, namely, Russia, Iran, the United States and the European Union.<sup>2</sup> The more cooperative strategy pursued by Russia and Iran in the Caspian Sea could be seen as attempts to counterbalance China's increasing influence in the region.

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<sup>2</sup> S. Orazgaliyev, "State Intervention in Kazakhstan's Energy Sector: Nationalisation or Participation?" *Journal of Eurasian Studies* 9, Issue 2 (2018).

Chinese President Xi Jinping made an official visit to Kazakhstan in September 2013 during which he announced the BRI initiative, which indicated China's continued dedication to cooperate with the region. As a result of active involvement in the region since 1998, China achieved significant participation in Central Asia's energy sector. Although building pipelines from the Caspian region required substantial investment, this has not deterred China. Over the second decade of its independence, Kazakhstan grew to become China's primary oil supplier in Central Asia, whereas Turkmenistan is now China's major gas supplier.

Some analysts have argued that China is playing an increasingly important role in the region and some have gone as far as to state that China will replace the United States and Russia in the region. Others argue that Chinese investment is largely predetermined by energy security concerns and it does not seem to be challenging the geopolitical domination of the United States and Russia. China's main motivation for its involvement in the Caspian region has been its increasing domestic energy demand. Having limited access to Persian Gulf oil supplies, China hastened to ensure the security of its energy supplies from the Caspian basin. Therefore, in diversifying its energy supply sources, Central Asia is China's natural choice as no shipment is required.

The inauguration of the Central Asia-China gas pipeline, which connects China to the main production fields in Kazakhstan, Turkmenistan and Uzbekistan, took place in December 2009. This 1,800 km long pipeline is projected to carry 40 billion cubic metres of natural gas annually. The launch of the pipeline was considered a turning point in the development of Central Asian resources. This pipeline met the Central Asian states' expectations of diversifying their export routes.

Between 2002 and 2009, China also invested heavily in the construction of a direct oil pipeline from Kazakhstan. At the time of its completion, the China-Kazakhstan oil pipeline was the world's longest pipeline, with a length of 2,228 km. For Kazakhstan, the new outlet provided a much-needed diversification of its export routes while diminishing its heavy dependence on the existing pipelines. For China, the pipeline became its first direct import route, which eased Beijing's concerns about its dependence on imports from the Middle East through the Straits of Malacca. As the supplies through the China-Kazakhstan pipeline route represent a relatively stable source of energy for China, it is expected that the latter's cooperation with the Caspian states will strengthen.

## **CONCLUSION**

In the final analysis, both the Caspian energy producers and their importers have benefitted from the diversification of pipeline routes in the region. Particularly, a more visible presence of China allowed the Central Asian states to strike a balance between Iran and Russia. Furthermore, the geopolitical rivalry between the global powers positively influenced the Central Asian countries' bargaining powers in relation to investors. The newly constructed pipelines have connected the Caspian region with Europe in the West and China in the East. Competition, trade and cooperation were the primary drivers behind the development of the new pipeline projects in the region.

The multiple new energy routes, driven by fierce competition among the geopolitical actors, have become complementary routes for Eurasian integration, paved by the new Caspian Sea convention and China's BRI. On the eastern part of the Caspian, China is investing heavily through its BRI project to facilitate trade links and energy cooperation with Central Asia. In the Caspian, closer cooperation between the riparian states could lead to greater connectivity and rapprochement between them. These developments have the potential to shape the development of regionalism and integrational processes in Eurasia for decades to come.

#### **ABOUT THE AUTHOR**

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