The Coming of Conflict to the Caspian Sea

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Military conflict in the Caspian basin would have costly economic consequences.

The presidents of the five states surrounding the Caspian Sea, Azerbaijan, Iran, Kazakhstan, Russia, and Turkmenistan, held their first summit meeting in Turkmenistan on April 23–24, 2002. The talks ended without any progress in settling the dispute about the legal status of the sea. In fact, the meeting emphasized the growing tension and frustration about the differences among the five states on how to divide the resources of the Caspian. As Turkmenistan’s president, Saparmurad Niyazov, summed up the situation, “The Caspian Sea is smelling of Blood and each of us must realize it. It is not an easy thing to have a dispute over an oil field.”

Nevertheless, Azerbaijan and, to some extent, Kazakhstan have continued their offshore explorations of the shelf despite repeated warnings by the neighboring states—most notably Iran and Turkmenistan—to halt activities beyond their territorial waters. In the summer of 2001 there was a confrontation between the Iranian navy and Azeri survey vessels. The littoral states have gradually built up their forces in the region, an ominous development considering that it comes at a time when the Caspian region’s oil development is entering a period of relative profitability.

Most oil and gas industry observers have so far downplayed the prospects for a military conflict over the hydrocarbon resources of the Caspian. However, it is not a question of if but when such a conflict will occur. Although it is unlikely that such a conflict would be protracted and large-scale, even a limited confrontation between two or more littoral states would be enough to slow or halt offshore exploration and cause investor flight. Either of these developments would have major regional economic consequences. As will be discussed...
below, any conflict would most likely involve the states with overlapping claims to disputed fields.

**One Sea, Five Claimants**

The five states that border the Caspian Sea have been unable to find a solution that allows them all to exploit the sea’s resources. The disputes between them remain unresolved because of the inadequate legal framework, poor delimitation, overlapping claims of ownership, and a preference for bilateral approaches.

**Deficient Legal Framework.** Before the collapse of the Soviet Union in 1991, the only legal framework applicable to the status of the Caspian Sea was based on a series of treaties between Iran (Persia) and Russia (the Soviet Union) in 1813, 1828, 1921, 1935, 1940, and 1956. However, none of these treaties has any meaningful provisions for the division of the sea’s resources. Most of the pertinent references to the Caspian are related to navigation and fishing rights. Article 5 of the 1813 Treaty of Gulistan, for instance, barred Iran from having a naval presence in the sea, reserving the right exclusively to Russia. Similarly, Article 8 of the 1828 Treaty of Turkmanchay renewed the restriction but granted Iran the right of commercial navigation.

The October Revolution of 1917 somewhat improved Russo-Iranian relations by invalidating the Caspian-related provisions of the 1813 and 1828 treaties. In 1921, a new Treaty of Friendship granted equal rights of free navigation to both parties. In 1935, another treaty entitled “Establishment, Commerce, and Navigation” granted the two countries fishing rights within their territorial waters, measuring 10 miles from the shore. Five years later, the Treaty of Trade and Navigation outlined a detailed set of provisions addressing fishing and commercial shipping. The treaty upheld the 1935 territorial-waters fishing provision of 10 miles from the coastline, but again did not address boundary issues or seabed mining rights.

Even with the discovery of oil and the subsequent exploration of the Caspian Sea near the Azerbaijan coast in the 1940s, the two parties did not initiate a delimitation treaty to address the question of seabed resources. It was not until 1956 and the Treaty of Settlement of Frontier and Financial Questions that the issue of delimiting the Caspian was marginally addressed, but this agreement only established a land boundary on both sides of the sea between the Soviet Union and Iran. The treaty made the Iranian ports of Astara in the west and Gaz (Hosseingholi) in the east the national bound-ary, limiting Iran’s jurisdiction to a small southern portion of the sea.

Taken as a whole, the pre-1991 treaties between Iran and Russia clearly fall short of providing a solid legal foundation for the division of Caspian Sea resources. Instead, they emphasize three interrelated principles. First, and perhaps most frequently stressed, is the principle of the sea’s exclusivity. The Soviets held that the Caspian was, in essence, a closed sea, which was taken to mean that only Iran and the Soviet Union were allowed to conduct commercial and military activities there. Second, the treaties concentrated on fishing rights within the designated 10-mile zone, but no provision for the precise demarcation of the coastlines was ever drafted. Finally, the principle of military and commercial navigational use of the sea appeared in almost all the treaties between the two parties. Aside from the applicability of the pre-1991 bilateral treaties in determining the present legal fate of the Caspian and its mineral resources, the most relevant and comprehensive body of international law—the 1982 United Nations Convention on the Laws of the Sea (UNCLOS)—fails to provide an adequate framework for settling the dispute. Although one of the main foundations of the law is based on the principle of delimitation of the sea territory between neighboring countries located across from or next to each other, it gives primacy to equity and proportionality in dividing any body of water rather than a strict application of the notion of equidistance. Given the Caspian’s unique layout and the decidedly uneven distribution of its hydrocarbon resources, devising a median line that would encompass the principles of equity and proportionality verges on the impossible. A delimitation that approximates the UNCLOS principle of equity and proportionality is shown in Table 1. The lop-sidedness of this distribution, based on the length of the coastlines and a modified equidistance line, compelled Iran and, until recently, Russia to vehemently object to the principle of national delimitation.

UNCLOS only covers bodies of water that have outlets to other seas or oceans. Even under its provision of “enclosed or semi-enclosed waters,” it clearly does not apply to the Caspian, since no narrow outlets connect the sea to other bodies of water. Moreover, none of the newly independent republics bordering the Caspian are signatories to UNCLOS. Russia and Iran joined the treaty in 1997 and 1998, respectively, but from a strictly legal point of view it does not have binding jurisdiction on the current Caspian dispute. Finally, the law clearly lacks international legitimacy because a number of key
states, including the United States, did not ratify it. Washington’s objection involved a provision of the law that prohibited deep-sea mining.10

Irreconcilable Differences. The deficiencies of the pre-1991 Russo-Iranian treaties and the UNCLOS legal framework in addressing the Caspian dispute have not deterred the littoral states from dividing into two groups. Azerbaijan, Kazakhstan, and Turkmenistan have adopted the UNCLOS stance on delimitation, whereas Iran and Russia call for joint exploitation of the Caspian and adherence to the pre-independence legal treaties until a new regime is put into place.

From the beginning, Kazakhstan, Turkmenistan, and particularly Azerbaijan have questioned the legitimacy of the Russo-Iranian treaties, on the grounds that they do not address the exploitation of subsea resources. To legitimize the principle of delimitation, officials from Kazakhstan and Azerbaijan have produced Soviet-era documents and maps as evidence of a Soviet intent to divide the sea into national sectors as early as 1970. For instance, an internal document of the Ministry of the Oil Industry and the Soviet International Law Manual of 1966 both offer a blueprint for dividing the Caspian among Azerbaijan, Kazakhstan, the Soviet Union, and Turkmenistan, utilizing a median line.11 During his tenure as prime minister of Russia, Viktor Chernomyrdin approved such a division in 1993, two years after the establishment of the Commonwealth of Independent States.12 Although these documents clearly point to a de facto division of the sea, Turkmenistan has disputed the validity of the median line adopted from the Soviet blueprint. In particular, Ashkhabad objects to Azerbaijan’s claim to several oil fields located in the middle of the Caspian.13

Until 1996, Iran and Russia only recognized the pre-1991 bilateral treaties and favored joint exploitation of the Caspian based on the condominium principle. However, strong lobbying by the oil industry forced the Russian government to gradually move toward a compromise approach. The new Russian proposal called for “two zones in the Caspian: one of exclusive national jurisdiction, measuring 45 nautical miles from the shores of the countries bordering the Caspian, and the other a common-possession zone situated beyond the limits of the national zones.” Four littoral states—not Azerbaijan—essentially accepted the proposal, but their acceptance was never made official.

By February 1998, Russia had completely reversed its earlier position by calling for national delimitation of the Caspian Sea, thus leaving Iran as the sole supporter of the condominium approach, which, in fact, has rarely been adopted under international law. The only known case involves the Gulf of Fonseca, shared by El Salvador, Nicaragua, and Honduras, all of which were part of the Spanish Empire before its dissolution in 1821. The International Court of Justice granted each state a three-mile exclusive territorial zone with the remainder kept in common.

Iran’s growing isolation after 1998 forced it to seek compromises on a number of issues. Regarding the Caspian, Teheran now embraced the delimitation principle supported by the other littoral states and called for an equal division of the seabed. Each of the five states would receive a 20 percent share of the sea’s resources. However, Iran did not completely abandon the condominium approach. On May 30, 2002, its special envoy for Caspian Sea affairs, Mehdi Safari, stated, “Iran insists on a common sovereignty both on the [Caspian] sea’s surface and its bed and considers the completion of the waters’ legal regime tied to a consensus.”14 At the April 2002 summit, as a gesture of reconciliation, Iran offered another proposal that called for a sectoral division of the sea along a median line. However, Teheran went even further by requiring a 10-mile zone on either side of the median line that would be subject to common exploitation of the seabed. The apparent lack of consensus in dividing the Caspian Sea emanates from the fact that its hydrocarbon resources are unevenly distributed. The very shape of the sea, which offers considerably shorter coastlines to Iran and Russia, further exacerbates this unequal distribution. Thus, both Iran and Russia are on the losing end of the Caspian equation.

Disputed Fields. All five Caspian littoral states have been involved in ownership disputes over a handful of fields, some of which have already been earmarked for exploration by Western oil companies, such as British

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Table 1

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<thead>
<tr>
<th>Country</th>
<th>Territory (sq. m.)</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Azerbaijan</td>
<td>21,999.0</td>
<td>20.7</td>
</tr>
<tr>
<td>Iran</td>
<td>15,470.7</td>
<td>14.6</td>
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<tr>
<td>Kazakhstan</td>
<td>31,706.9</td>
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<td>Russia</td>
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</tr>
<tr>
<td>Turkmenistan</td>
<td>20,397.8</td>
<td>19.2</td>
</tr>
<tr>
<td>Total</td>
<td>106134.4</td>
<td>100.0</td>
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</table>

Petroleum, or have been put up for sale to foreign investors. The most serious disputes all pertain to oil fields located in the southern Caspian Sea and involve Azerbaijan. The Turkmen-Azeri dispute concerns Hazar (Azeri), Osman (Chirag), Altyyn Asyr (Sharg), and Serdar (Kyapaz). Azerbaijan has been accused of exploring these fields, which are partially located on the median line dividing the sea between the two countries. Turkmenistan, however, does not accept the strict median line and has called for an adjustment that would compensate for the protrusion of the Apsheron Peninsula near Baku. This would give Turkmenistan an additional 30 miles of seabed that includes some of the aforementioned fields. Importantly, Turkmenistan has identified 109 oil and gas fields in its Caspian sector of which only four are disputed.16

The Iranian-Azeri dispute revolves around the Alov-Araz-Shaq (Alborz in Farsi) oil field. Located more than 100 miles southeast of Baku, this 900 square-mile area is operated by British Petroleum. In late July 2001, an Iranian air force jet crossed the Astara-Gaz (Hosseingholi) line, the sea border between Iran and the Soviet Union, and circled over two Azeri survey ships, demanding that they move 5 miles northward.17 Six days later, another Iranian jet entered the area, flying at an altitude of 600 feet. In August 2001, reacting to these border violations, the Azerbaijani Defense Ministry announced that the country’s national air-defense forces would prevent further incursions.18 However, according to Azerbaijani sources, Iran continued to violate Azerbaijan’s airspace and sea borders. On April 18, 2002, for instance, an Iranian ship entered Azeri waters just before the Ashgabad summit.19

Much more benign than the Azeri-Turkmen and Azeri-Iranian disputes in the south, the Russia-Kazakhstan dispute about the Kurmangazy field has been managed more diplomatically. Moscow issued an official protest in November 2001, when Kazakhstan announced a tender in which Royal Dutch Shell and Statoil took part.20 By 2002, however, Kazakhstan agreed to involve Russian oil companies in the project and engage in joint exploration of the field.

No one knows whether any of these disputed fields will be commercially viable. The Russian oil companies largely abandoned their sector after exploratory drilling discovered either small amounts of oil or only gas. Similarly, on June 12, 2002, ExxonMobil announced that it would abandon drilling in the Oguz field off the coast of Baku, which also apparently lacks sufficient quantities of oil. Earlier, TotalFinaElf and Kerr-McGee decided to leave Azerbaijan because of the lack of commercial viability of many of its offshore fields.21 In addition to uncertainties about the location and amount of offshore oil, the southern Caspian offers major technical challenges because of its great depth. The Alov (Alborz) field, for instance, is on average 1,700 feet deep, and oil reserves may be 4 miles below the surface.22

Nevertheless, on May 23, 2002, Iran announced that it would begin exploring its unilaterally declared 20 percent of the Caspian. Iran has allocated $300 million for obtaining and installing derricks.23 Given the sanctions against the Iranian oil industry imposed by the United States through the Iran-Libya Sanction Act, which prevents foreign companies from investing more than $30 million a year, and Iran’s inadequate technical and instrumental capabilities, it will be years before any serious exploration can take place. In the meantime, the Russian oil giant Lukoil has been lobbying Azerbaijan to gain a share of the Alov (Alborz) field in return for diplomatic support.24 Lukoil apparently hopes to use Russia’s military and economic relations with Iran as leverage to settle the dispute over the Alov fields.

**Band-Aid Diplomacy.** Some of the five littoral states have entered into bilateral agreements to facilitate the exploitation of the Caspian’s resources. From the perspective of negotiation theory, the bilateral approach is the most rational policy alternative when states have asymmetrical bargaining power and competing interests. This is especially so in the case of the Caspian Sea, given the economic costs of a multilateral agreement and the nature of its oil resources. Unfortunately, the bilateral agreements were made by states that are not seriously in dispute with one another, and the language of some of the agreements leaves the position of the median line subject to future reassessment. Thus, the bilateral treaties only postpone the conflict that may emerge as new fields are discovered. In addition, they have raised the level of tension between the participating and non-participating states. Therefore, it is highly unlikely that bilateral agreements will reduce the growing tension, especially in the southern Caspian region.

The first bilateral agreement was signed by Azerbaijan and Kazakhstan in June 1997. A second agreement between the two countries was signed in November 2001, reaffirming the earlier treaty and calling for both sides to adhere to the borders of their sectors along the median line until a broader multilateral convention is signed.25 That year, Kazakhstan and Turkmenistan issued a joint communiqué that in principle divided their sectors of the sea along median lines.
drawn during the Soviet era. In July 1998, Kazakhstan entered into another bilateral agreement with Russia that divided the northern part of the Caspian shelf between the two countries but left navigation, fishing, and environmental matters in common jurisdiction. Obligated by the Soviet-era treaties, however, Russia’s accord with Kazakhstan called for continued recognition of the 1921 and 1940 treaties until a broader agreement is signed. In May 2002, President Vladimir Putin of Russia and President Nursultan Nazarbaev of Kazakhstan signed a new protocol on demarcation of the Caspian Sea shelf. The two sides agreed to develop jointly three fields located on the median line between the two countries: Kurmangazy, Khvalynskoe, and Tsentralnoe. For the first time, the document stipulated the precise latitude and longitude coordinates of the modified median line between the two countries’ sectors.

In January 2001, Azerbaijan entered into yet another agreement, this time with Russia, to divide the seabed and keep navigation common. The document was based on an agreed median line drawn at an equal distance from the sides and modified based on mutual consent. In April 2002, the two sides signed another document that authorized further demarcation of the seabed for developing its hydrocarbon deposits. Azerbaijan, however, refused to sign the final draft of the bilateral agreement in late 2002 without offering a formal explanation.

Iran adamantly opposes the bilateral agreements between Azerbaijan, Kazakhstan, and Russia. On March 11, 2002, Muhammad Hassan Fadaifard, Iran’s deputy permanent representative to the United Nations, asked General Secretary Kofi Annan to abrogate all of Kazakhstan’s bilateral agreements with other littoral states. Turkmenistan has also protested such bilateral agreements but announced its intention to sign similar treaties following the failed Ashgabad summit in April 2002. Turkmenistan is wary of Iran’s unilateral decision to claim 20 percent of the Caspian, which directly affects the Turkmen and Azerbaijan shares as defined by the Soviet-era division of the sea. Iran’s growing isolation may compel its clerical leadership to resort to more drastic measures to protect its interest in the sea and to prevent further erosion of Iran’s regional prestige. Russia has effectively abandoned its earlier alliance with Iran in favor of a substantially pro-Western position that calls for expedited development of Caspian hydrocarbon resources. A brief discussion of how Iran’s internal political dynamics affect Caspian Sea issues will be presented below. Briefly, the country’s conservative clergy would benefit from even a limited conflict in the Caspian Sea because it would rescue their declining support by appealing to the public’s sense of nationalism.

Military Capabilities

Judged purely by the quantity of available military matériel and personnel in and around the Caspian Sea, Russia is still the dominant force in the region. Iran, which has been gradually expanding its military contingent since the disintegration of the Soviet Union, ranks second. The other three littoral states have small naval forces but are increasing them as the legal status of the Caspian continues to be contested. Although force strength is both a critical element of deterrence and a key ingredient for success in the event of a war, the Caspian Sea theater presents a unique challenge that largely defies the conventional approach to warfare. First, a large number of states could be drawn into the conflict. Second, any conflict would involve oil fields and foreign investors. Since the investors are primarily interested in stability, even a short conflict could radically diminish their interest in the region. Finally, a conflict could easily expand beyond the borders of the Caspian littoral to Turkey and other states. Therefore, although military capabilities matter, the political interests of the littoral states will determine the probability and nature of any conflict that may occur in the region. The ongoing military buildup in the Caspian should not be interpreted as preparation for war, but it is, nonetheless, curious that the increase in military activity has corresponded with the growing tension about the legal status and future exploration of the disputed oil fields. Actual figures on military strength are difficult to obtain. One estimate is summarized in Table 2, and others are detailed below.

Russia’s Caspian Sea Flotilla. The only Russian naval force that was not downsized following the collapse of the Soviet Union was the Caspian Sea Flotilla (CSF), a coastal and waterways defense force consisting of two frigates. The Russian Defense Ministry assigned the CSF to the Caucasus sector of the border-defense zone encompassing the territory between the Black Sea and the Caspian Sea and moved its headquarters from Baku to Astrakhan in 1992. The CSF underwent reorganization that same year, when Russia offered to divide it among the littoral states. Azerbaijan agreed to receive 25 percent of the flotilla’s surface ships. Of the remaining 75 percent, Russia offered 25 percent each to Turkmenistan and Kazakhstan, but both states declined the offer. By August 2001, the CSF had 20,000 troops and
its force structure included patrol boats, minesweepers, radar picket ships, combat and auxiliary vessels, missile and landing hovercraft, and supply ships. Although Russian naval capabilities have decidedly diminished since 1991, the CSF has been on the mend and is perhaps the only naval force that has received increased financial and technical attention, due in part to the Chechen and Abkhaz conflicts. An airfield was constructed in Kaspiysk, Dagestan, to provide air support for the CSF. Over the past several years, the CSF has received amphibious planes and Ka-25 and Ka-27 anti-submarine helicopters. At the beginning of 2002, a separate marine brigade (the 77th) was established. The brigade has, in principle, both assault and electronic warfare capabilities.

The Caspian Sea Flotilla also has Dzheyran-class air-cushion landing ships with a speed of 55 knots and a load capacity of 72 tons, enabling them to carry a company of troops and five armored personnel carriers (APC), as well as Kalmar air-cushion landing ships that can hold two APCs. New vessels for the flotilla are being built in Tatarstan and Dagestan, including Gepard patrol ships. Designed to be the largest vessels in the Caspian, they displace 2,100 tons and are equipped with eight Moskit cruise missiles. In addition, there are plans to build hovercraft with a displacement of 1,260 tons and a top speed of 50 knots. They will be equipped with eight cruise missiles, twenty Osa-MA ship-to-air missiles, a 76-mm cannon, and two 30-mm machine guns. In January and March 2002, two new patrol boats, a Sokzhoy and a PSKA-107, were added to the CSF. An all-weather craft, the PSKA-107 has a top speed of 37 knots, and the Sokzhoy can do 30 knots. Another Russian naval vessel to be deployed in the Caspian is currently under construction in the Zelenodolsk shipyard. It has an estimated displacement of 2,000 tons.

On August 1, 2002, Russia launched a two-week, large-scale military exercise in the northern Caspian basin. Designed to demonstrate Russian military supremacy, the maneuvers were in two stages: a week of simulations followed by a week of war games involving air, sea, and land forces. Thirty planes, sixty warships, and 10,000 men took part in the exercises. Azerbaijan and Kazakhstan symbolically participated by sending four SU-27 fighters and one ship, respectively. An unconfirmed report from RIA Novosti stated that Russia denied Iran’s request to join the exercises, citing a 1924 treaty barring all military vessels other than those belonging to the Soviet forces. One day after the failed April 2002 summit, President Putin announced the maneuvers, referring to the twin threats of international terrorism and drug trafficking in the region.

Putin’s visit to the Caspian Sea Flotilla on April 25, 2002, was apparently planned before the summit and several versions of his speech to naval personnel were prepared. According to Vladimir Kyroedov, the commander of the Russian navy, the summit’s negative outcome led to a decision to choose the speech with an implicit ominous message to Russia’s neighbors. One high-ranking naval officer said that “unless by the start of the full-scale development of Caspian oil we have managed to come to terms with our neighbors in full, the force factor will be of key significance here.”

Clearly, the main source of concern is the ongoing dispute among Iran, Azerbaijan, and Turkmenistan, as well as Iran’s unilateral decision to claim 20 percent of the sea.

**The Southern States.** Azerbaijan has the second-largest navy in the Caspian after Russia. Baku inherited sixty ships and support vessels and 2,200 sailors, and its navy now consists of one frigate, two missile boats, several patrol boats, and five small anti-submarine vessels. The United States and Turkey provided two additional patrol cutters. In mid-April 2002, President George W.
According to the United States Arms Control and Disarmament Agency, Azerbaijan received 286 tanks, 388 artillery pieces, 947 APCs, fifty-three aircraft, four minesweepers, and eight helicopters from the division of Soviet assets in 1992. Azerbaijan purchased additional equipment from Ukraine in 1993, including more than thirty MiG-21, SU-15, and SU-25 aircraft. In 1995, Azerbaijan acquired from Ukraine ninety-six laser-guided bombs and 2,600 BM-1 missiles. The Zira Brigade, which is responsible for protecting the Caspian Sea border, is capable of downing planes at a maximum altitude of 60,000 feet and its missiles have a range of 130 miles. There is also the Qala Brigade, with three fighter planes, on stand-by. Russia operates an early-warning radar station at Qabala in Azerbaijan with a contract extending through January 2005.

Kazakhstan’s navy is small but growing. According to Jane’s Sentinel Assessment, Kazakhstan had a surface fleet of twenty-two vessels, including five purchased in 1998 from the United Arab Emirates. Since 1995, the Zenith naval shipyard at Urlask has built three Burkit-class patrol boats, including two that were put into service in 2002. In 1997, the United States provided two Coast Guard cutters to allow better monitoring of the Caspian coastline between Aktau and Atyrau. Kazakhstan inherited MiG-23s, MiG-27s, MiG-29s, and SU-24 fighters that are reportedly at 30- to 50-percent operational capacity. There are plans to reposition several surface-to-air missiles as well as move additional troops to enhance security in and around the Caspian region. Most of the troops will be relocated from Kazakhstan’s Western Military District. In September 2001, the Kazakh air defense command relocated radar and other air defense equipment to the Caspian Sea.

Turkmenistan has perhaps the weakest military force of the Caspian littoral states. However, its unresolved dispute with Azerbaijan about the offshore oil fields has forced President Saparmurad Niyazov gradually to acquire weapons to build a stronger navy. The United States gave Turkmenistan a Point Jackson-class Coast Guard cutter, which was delivered to Turkmenistan in the port city of Izmir in Turkey and air-lifted to the port of Turkmenbashi on the Caspian. In accordance with the State Commission for Technical Provision of the Armed Forces, established by the president, the military forces of Turkmenistan are rearming with a special focus on Caspian Sea security. Plans are also underway for a barter deal with Russia to acquire weapons in return for Turkmenistan gas. There are also unconfirmed reports that Turkmenistan has obtained twenty speedboats from Ukraine. Ten of them are 40-tonners fitted with heavy machine guns. The other ten displace 8 tons each. Two of the boats have already been delivered.

Although very little information is available on Iran’s Caspian Sea force strength and structure, reports suggest that its navy has gradually been expanding since 1991. A recent unconfirmed report indicated that Teheran had brought thirty-eight vessels to the Caspian Basin to enhance its patrol capacity. Although the report did not indicate the class of these vessels, they are probably high-speed Swedish-built speedboats fitted with heavy machine guns, identical to those deployed in the Persian Gulf during the Iran-Iraq war.

Apart from its navy, Iran has air bases in the north that house American-made F-4 and F-16 fighter jets as well as Soviet MiGs that could strike targets in the Caspian region. The Iranian Air Force is also equipped with a number of Cobra attack helicopters with a 300-mile range. Iran has acquired Chinese- and Soviet-made missiles, and has modified domestically produced short- and medium-range missiles capable of hitting targets in the Caspian region. The Shahab 1, 2, and 3 missiles are produced domestically. Based on the Chinese Scud B and C, and the No-Dong missile technologies, the Shahabs have a range of up to 500 miles.

Who Will Rock the Boats on the Caspian?

The littoral states’ political options in the Caspian basin are ultimately determined by economic interests that are in turn conditioned by domestic realities. The interplay of these realities and interests will define the preferred course of action, including the use of force rather than diplomacy.

Russia? As the dominant political and economic competitor in the Caspian, Russia is the state least likely to challenge the status quo. It will use its military muscle for deterrence but will not necessarily intervene if a military confrontation erupts in the southern Caspian. There are several reasons for this. First, Russia has very little economic interest in the southern Caspian and recently resigned from the Baku-Tbilisi-Ceyhan pipeline consortium. It also has largely resigned from the Azeri
sector of the Caspian. The lack of substantial economic potential, combined with Azerbaijan’s decision to exit Russia’s sphere of influence, may constitute sufficient reason for Russia not to get involved militarily in a conflict. Second, although Moscow may have isolated Iran by advocating bilateralism, it values Iran as a buyer of Russian military and civilian products. Here, too, it is doubtful that Russia would get involved in a conflict that included Iran and Azerbaijan. Third, Russia has gained control of the Caspian export pipelines through deals for Kazakhstan’s onshore and offshore oil over the next fifteen years. Finally, Russia is reorienting its energy policy toward Siberia and the Far East. The United States has been instrumental in assisting Russia to become an alternative to OPEC and a stabilizing force in the global energy market. During an interview at Beijing University in early December 2002, President Putin remarked:

Interests change, particularly in the sphere of energy policy, they are changing in the world somewhat with regard to the unstable situation in the Middle East. The world economy is interested in stable supplies of energy resources from new regions. One of the few regions that could cater to the volume of supplies, quality and logistics is Russia, Siberia, the Far East and the Caspian Region.56

Iran? Iran’s political stability is increasingly threatened by the declining legitimacy of the clerical establishment, which is “clinging to power more by coercion than by any popular acceptance of their plan to Islamize all aspects of Iranian life.”57 Under the leadership of the Ayatollah Ali Khamenei, the conservative clergy may be inclined to use military force in the Caspian Sea to reinvigorate their lost authority and galvanize public support, as was suggested in January 2003 by the managing director of National Iranian Oil Company, Mahdi Mir Moezi: “Exercising Iranian sovereignty over the Caspian Sea is more important than its economic interests at this time.”58 What makes such remarks worthy of careful appraisal is the fact that the Revolutionary Guards Corps (RGC) is entirely controlled by Ayatollah Khamenei and the conservative clerics. The clerical leaders have the power to impose their will. In fact, the 2001 research-vessel incident between Iran and Azerbaijan involved RGC units, not the regular Iranian Army. Furthermore, during the past decade, Iran’s northern population explosion has caused sharp increases in energy consumption, and this has heightened the economic importance of the Caspian oil deposits for the country.

Turkmenistan? A somewhat similar scenario is developing in Turkmenistan. Popular support for President Niyazov’s autocratic rule has declined significantly as more Turkmen have either become disillusioned with his ability to improve their lives or been adversely affected by his domestic policies.59 Niyazov’s anxiety over domestic security is reflected in his systematic purge of key regional and local security officials. Much like the conservative clerics in Iran, he may decide to use the Caspian-resource dispute to initiate a limited conflict that could shore up his legitimacy and divert attention from his domestic agenda. Given that Niyazov has been less than enthusiastic about attracting offshore foreign investment, he might even welcome a disruption in oil-project development in the southern Caspian region. The November 2002 attempt on Niyazov’s life underscores his declining legitimacy.

Azerbaijan? Two domestic factors make Azerbaijan likely to pursue a strong-arm policy in the future. First, while President Aliev will probably not provoke a conflict, he is reportedly ill and is grooming his son, Ilham, the deputy chair of the state petroleum company, to be the next head of state. Ilham seems to be more confrontational on the Caspian Sea dispute. He has been quoted in the Azerbaijani media as supporting the use of force if Iran interferes in the development of oil resources considered to belong to Azerbaijan. Following the Iranian incursions into Azerbaijan’s air space in 2001, Ilham declared: “Such behavior by Iran is intolerable. It is time to put an end to this. If the flights of Iranian planes threaten our security, the Defense Ministry should take the necessary measures.”60 The second domestic reality is related to the continuing downward adjustment of Azerbaijan’s offshore-oil estimates. Foreign oil companies have either downsized their activities or pulled out of the market. The latest pullout took place in June 2002, when ExxonMobil announced that it would not renew its contract for the Oguz block due to low yields.61 Furthermore, a number of offshore oil fields have yielded only gas, which is not commercially viable for additional investment. If these trends continue, the Baku government may be more inclined to develop the disputed oil fields, thereby increasing the potential for conflict.

Not Kazakhstan. The combination of its location on the northern Caspian and domestic political conditions make Kazakhstan unlikely to use force to settle disputes. It has no ownership disputes with the southern Caspian states and has settled its disagreements with Russia re-
garding fields along the median line accepted by the two parties.

**Conclusion**

Despite the ongoing dispute about the legal status of the Caspian Sea, most oil industry analysts downplay the potential for an outbreak of conflict among the littoral states. The long-term economic cost of a conflict, they argue, would far outweigh any benefits. Besides, except for Russia and perhaps Iran, the Caspian states lack the military capacity to initiate a conflict, and the presence of Russia’s Caspian flotilla would deter any littoral state that might wish to instigate a conflict. Finally, they maintain, Washington’s economic and strategic interests in the Caspian are the ultimate check on the behavior of the region’s states. At first glance all of these arguments seem convincing, but a closer examination raises legitimate doubts as to their long-term validity.

First, although cost-benefit analysis and international norms of conduct have generally defined the parameters of foreign policy decision-making by the Caspian states, other factors, such as regime survival and elite psychology, can override rational behavior. This is particularly relevant to Iran and the growing threat its theocratic regime faces from reformers. Even a limited conflict in the Caspian Sea would offer the clerical establishment the same benefits that the Iran-Iraq War provided in the early 1980s—an opportunity to consolidate its power and stifle internal dissent. President Niyazov of Turkmenistan, whose legitimacy is also weakening, might find a Caspian conflict similarly attractive.

Second, since the dispute in the Caspian is about oil deposits, not territory, the size and strength of military forces is less significant. Even small, sporadic conflicts can disrupt or altogether halt oil exploration activities and cause investor flight. The southern Caspian states could block the development of disputed fields with mines, missiles, or small aircraft.

Third, there is no certainty that Russia would intervene if a conflict erupted in the southern Caspian. Russia’s main economic objective in the Caspian is to maintain control of export pipelines. It has no large investments in the Caspian and thus little reason to intervene. Most of Russia’s interest is in the northern half and concerns Kazakhstan, the least-likely candidate to be drawn into any conflict. Despite American pressure, Russia has maintained close ties with Iran, a possible instigator of conflict, and would not find it profitable to take sides in any future conflict. The recent shipment of the Bushehr nuclear reactor turbine to Iran is a clear sign that Moscow regards Tehran as a valuable ally.

Finally, although the United States might intervene on behalf of Azerbaijan militarily to settle a dispute, it would be unable to implement the monitoring and patrol networks necessary to restore investor confidence due to U.S. involvement in Iraq, Afghanistan, and the broader war on terrorism. The United States would also face international pressure in the event that it chose to invade Iran, and tactical and logistical dilemmas if it were simultaneously attacking Iraq. In early 2002, the U.S. government re-evaluated the Caspian Sea’s role in the overall global energy portfolio and opted for a new Russian-oriented strategy that would include the joint development of the eastern Siberian oil fields as well as further development of Sakhalin projects in the Russian Far East. Therefore, the United States, much like Russia, may well focus on the northern Caspian fields belonging to Kazakhstan.

The prospects for conflict in the Caspian basin will increase as exploration of undisputed deposits concludes. If many of the Caspian deposits prove to contain gas rather than oil, greater competition for the sea’s oil resources will ensue. If these prove to be scanty, this might discourage competition and therefore reduce the potential for conflict, but this argument does not apply to Azerbaijan, whose economic development is entirely based on oil. Much also depends on the stability of the regimes in Turkmenistan and Iran and the presidential succession in Azerbaijan. Given the capabilities of the southern Caspian states, any outbreak of conflict would be sporadic and limited, but the economic consequences would be quite costly.

**Notes**

3. For more information, see A Compilation of Bilateral Treaties Between Iran and Other Countries (Tehran: Ministry of Foreign Affairs, 1971).
4. Articles 13 and 14 of the treaty deal specifically with the exclusive fishing and navigation rights of the two states.
5. As early as 1920, the Soviet Ministry of the Oil Industry nominally divided the sea. However, Iran was not consulted on the division, nor were there any bilateral agreements to provide a legal precedent for delimitation.
6. The Soviet law may have delimited the Caspian between Kazakhstan, Azerbaijan, and Turkmenistan in 1970, but, according to Eric Sievers, Moscow has not produced the text. See his “The Caspian, Regional Seas, and the Case for a Cultural Study of Law,” Georgetown International Environmental Law Review 13 (2001), via LEXIS-NEXIS.
8. Ibid.
9. Article 122 of the law offers the following definition of applicable bodies of water: “Enclosed or semi-enclosed sea means a gulf, basin, or sea surrounded by two or more States and connected to another sea or the ocean by a narrow outlet or consisting entirely or primarily of the territorial seas and exclusive economic zones of two or more coastal States.”
10. Although President Ronald Reagan, in 1983, recognized the legitimacy of the law in all respects except for deep-sea mining, UNCLOS has never been applied uniformly, nor has it been enforced routinely at the international level since its approval in 1982. For more information, see www.un.org/Depts/los/convention_agreements/texts/unclos/closindx.htm.
12. Ibid., n. 50. Chernomyrdin has been a major stakeholder in Gazprom of Russia.
13. Turkmenistan has called for an adjustment of the median line because of the extension of land into the sea on the Azerbaijan side called the Apsheron Peninsula.
15. Turkmen State News Agency (July 1, 2001), via British Broadcasting Corporation Monitoring Online [hereinafter, BBC].
16. Turkmenistan (April 20, 2001), via BBC.
17. ANS TV [Baku] (July 30, 2001), via BBC.
19. ANS TV [Baku] (April 19, 2002), via BBC.
20. Kazakh Commercial TV [Almaty] (October 12 and November 1, 2001), via BBC.
22. Ima [Tehran] (August 1, 2001), via BBC.
23. Kazakh Commercial TV [Almaty] (May 23, 2002), via BBC.
24. ANS TV [Baku] (May 28, 2002), via WNC.
26. Izvestia (May 15, 2002), via WNC.
27. Trud-7 [Moscow] (May 16-22, 2002), via WNC.
29. Kazakh Commercial Television [Almaty] (March 11, 2002), via BBC.
30. Azadlyg [Baku] (April 17, 2002), via WNC.
32. Ibid.
33. Moscow Vremia Novosty (April 26, 2002), via WNC.
34. Zerkalo [Baku] (August 18, 2001), via BBC.
35. Ibid.
36. Dagestanskaia Pravda and Makhachkala Izvestiia (January 23, 2002) and (March 2, 2002), via BBC.
37. Dagestanskaia Pravda (March 22, 2002), via BBC.
39. Agence France-Presse (August 1, 2002).
40. Ibid.; Zerkalo [Baku] (August 18, 2001), via BBC.
41. Zerkalo [Baku] (August 1, 2001), via BBC.
42. Vremia novosty (April 26, 2002), via WNC.
43. Eko [Baku] (April 19, 2002), via BBC.
44. Ibid., n. 43.
45. Ibid.
46. ANS TV [Baku] (January 25, 2002), via BBC.
49. Khabar Television [Almaty] (May 21, 2002), via BBC; Kazakh Commercial TV [Almaty] (September 27, 2001), via BBC.
50. Turkmen Television First Channel (DATE), via BBC.
51. Ekho [Baku] (July 3, 2001), via BBC.
52. ANS TV [Baku] (June 1, 2001), via BBC.
54. ANS TV [Baku] (February 28, 2002), via BBC.
56. Kremlin Press Release (December 4, 2002), via WNC.
58. Tehran Times (January 12, 2003), via WNC.
59. Vesti (September 3, 2002); available at www.rtr-vesti.ru. In an unpopular move, President Niyazov ordered 20,000 military draftees assigned to various ministries and government institutions to assist in the implementation of his domestic policies.
60. Bilik Dunyasi News Agency [Baku] (August 10, 2001), via BBC.
61. WorldOil.com Industry News (June 6, 2002).

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