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Policies of five Caspian coastal states: Do concerns about relative gains play any role?

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This study examines the approach of five Caspian coastal states - Russia, Iran, Azerbaijan, Kazakhstan, and Turkmenistan - toward the legal regime regarding the Caspian Sea in the 1990s. In particular, it tests the neorealist hypothesis regarding relative gains in explaining the approach of those five Caspian coastal states. This study demonstrates that concerns about relative gains matter, but not universally. Azerbaijan and Kazakhstan consistently pursued relative gains strategy. Yet, in the cases of three other Caspian states, Russia, Iran, and Turkmenistan, concerns about relative gains were not critical in determining the policy direction of these states.

**Keywords:** Caspian Sea, legal regime, neorealism, relative gains, oil

1. INTRODUCTION

This study examines the approach of five Caspian coastal states - Russia, Iran, Azerbaijan, Kazakhstan, and Turkmenistan - toward the legal regime regarding the Caspian Sea in the 1990s. Before the collapse of the USSR, two Caspian coastal states - the Soviet Union and Iran - governed the sea. After the breakup of the USSR, however, the situation changed. Instead of two Caspian states, five countries bordered the sea. This situation led to the need for building a new international regime regarding the Caspian Sea. The discovery of huge, previously undetected, deposits of hydrocarbon resources in the sea added urgency to that need (Blum 1998: 138).

Yet, building the new regime did not turn out to be easy, primarily because expectations among the Caspian littoral states diverged regarding the proper management of the sea. This divergence in expectations was probably greatest between Russia and Azerbaijan. Russia, at any rate its Foreign Ministry, argued...
that the Caspian Sea should be governed jointly by all Caspian littoral states, whereas Azerbaijan asserted that the sea should be divided into five national sectors. The divergence of expectations about the proper management of the Caspian Sea was such that it led to the dispute between the Russian Foreign Ministry and Azerbaijan. Azerbaijan began to develop oil in the sector of the Caspian Sea that it claimed. The Russian oil industry faction (the Ministry of Fuel and Energy and Lukoil) supported the Azerbaijani position by participating in the country's oil development in late 1993 (Segodnia, September 8, 1995). In response, the Russian Foreign Ministry contested the legitimacy of oil development by asserting that all actions in the Caspian Sea must be decided jointly by the five Caspian littoral states (Foreign Broadcasts Information Service [FBIS hereinafter], June 7, 1994; FBIS, October 13, 1994). Thus, the legal dispute over the Caspian Sea began. Later, three other Caspian littoral states joined the dispute.

This article attempts to test the neorealist hypothesis regarding relative gains in explaining the approach of five Caspian coastal states toward this legal dispute. One primary reason I selected this neorealist theory is as follows. The debate over absolute gains versus relative gains between neoliberals and neorealists is partially over in the sense that prominent neoliberals such as Robert O. Keohane and Lisa L. Martin acknowledged that the early neoliberal literature ignored the issue of relative gains in cooperative ventures (1995: 43).1 Keohane was specific in suggesting that relative gains matter. He said that he made a major mistake in his book After Hegemony by underemphasizing distributional issues and the difficulties they create for international cooperation (1993: 292).2 Leading neorealists such as Kenneth N. Waltz and Joseph Grieco posit that when faced with the possibility of cooperating for mutual gain, each state is concerned about relative gains concerns and these concerns in turn inhibit cooperation among states (Grieco 1990: 40). In other words, states are disinclined to engage in cooperative schemes because they are concerned about "who will gain more" rather than about "will both of us gain" (Waltz 1979: 105).

If this hypothesis is true, five Caspian coastal states would pursue different approaches toward the Caspian legal dispute. This is true especially because hydrocarbon resources in the Caspian Sea were distributed unevenly. To be more precise, if the Caspian Sea were divided into five national sectors along the median line, three Caspian states - Azerbaijan, Kazakhstan, and Turkmenistan - were believed to have more energy reserves in their sectors of the sea than Russia and Iran (Forsythe 1996: 6). Thus, we expect that Azerbaijan, Kazakhstan, and Turkmenistan would call for the national division of the Caspian Sea, whereas Russia and Iran would advocate joint sovereignty over the sea. However, as I will demonstrate later, only Azerbaijan and Kazakhstan consistently pursued relative gains strategy. This shows that concerns about relative gains in cooperative schemes matter, but not universally. This study starts with a brief survey of the
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Caspian dispute. It then discusses implications of that dispute, especially the issue of dividing oil wealth in the sea. I go on to examine the policies of five Caspian coastal states. Finally, I draw conclusions.

2. CASPIAN LEGAL DISPUTE

Several analysts mistakenly described the Caspian legal dispute, especially at its early stage, as a debate over whether the Caspian should be defined as a lake or a sea. According to these analysts, if the Caspian was identified as a lake on the one hand, it should be shared by the littoral states. On the other hand, if the Caspian was defined as a sea, the 1982 UN Convention on the Law of the Sea would apply to it. This implies certain distributional arrangements, including the establishment of an exclusive economic zone for each littoral state. The analysts then claimed that the Caspian dispute especially between Russia and Azerbaijan took this form of defining the Caspian as a lake or a sea. Russia, at any rate its Foreign Ministry, argued that the Caspian was a lake and thus was subject to joint sovereignty, whereas Azerbaijan asserted that the Caspian was a sea and thus should be divided into national sectors (Roberts 2001: 64).

However, a close reading of the Caspian dispute provides a rather different picture. For instance, the Russian Foreign Ministry did say that the Caspian was a lake and thus the Law of the Sea did not apply to it. Yet the ministry did not assert that the Caspian was automatically subject to joint control because the Caspian was a lake. Moreover, Azerbaijan maintained that the Caspian was a lake (Vinogradov and Wouters 1996: 94). This confusion regarding the Caspian dispute appeared to arise primarily from the misconception that the resolution of the dispute depended on the legal designation of the Caspian as a lake or a sea. For example, speaking of the difficulty of resolving the Caspian dispute, Bernard H. Oxman pointed out that “Attempting to determine the rights and duties of the states concerned by a process of deductive reasoning based on the status of the Caspian Sea as a sea or a lake is largely, if not entirely, a pointless endeavor” (Oxman 1996: 12).

As a matter of fact, if we define the Caspian as a lake, the question of its legal status remains unresolved. This is so because the legal regimes of lakes are based on specific agreements (Vinogradov and Wouters 1995: 614). Thane Gustafson et al. are right in pointing out that “Under typical practice in international law, lakes and internal seas are not normally considered subject to joint sovereignty, unless specified by a clear treaty” (Gustafson et al. 1995: 14). Indeed, there are many precedents for demarcating lakes between two or more states. Examples include the Great Lakes of North America (between Canada and the United States), Lake Chad (between Nigeria, Niger, and Chad), Lake Constance (between Austria, Germany, and Switzerland), Lake Geneva (between
France and Switzerland), Lake Malawi (between Malawi and Mozambique), and Lake Victoria (between Kenya, Tanzania, and Uganda) (Horton and Mamedov 2000: 267; Rajaee 2000: 85).

If we define the Caspian as a sea, the question of its legal status remains unsettled. To be sure, the 1982 UN Convention on the Law of the Sea can help to clarify the nature of littoral states’ rights. But the law by itself cannot help to determine how to divide the Caspian. Even though delimitation effected by agreement in accordance with equitable principles gained general acceptance, there is no single and generally recognized method of delimitation (Vinogradov and Wouters 1995: 614). Moreover, the Convention on the Law of the Sea applies only to its members. Yet states such as Azerbaijan, Kazakhstan, and Turkmenistan have not acceded to the convention (Horton and Mamedov 2000: 265). Thus, the legal designation of the Caspian does not facilitate the resolution of the Caspian dispute. Guive Mirfendereski pointed out that whether sea or lake, it is up to the five Caspian littoral states “to negotiate their respective boundaries on the water” (Mirfendereski 2001: ix).

The fiercest Caspian legal dispute took place between the Russian Foreign Ministry and Azerbaijan. These two parties employed not only the legal designation of the Caspian but also historical precedents to substantiate and buttress their position. For instance, the Russian Foreign Ministry put forward the argument that the Caspian was a lake because it was landlocked and unconnected to the world oceans. Thus, the ministry maintained that the Law of the Sea was not applicable to the Caspian (Horton and Mamedov 2000: 266). Aleksandr Khodakov, Director of the ministry’s Legal Department, mentioned that the Caspian was “not a sea, but an inland lake” and thus the Law of the Sea was not applicable to it (Financial Times, March 3, 1995). Likewise, in an interview, Deputy Foreign Minister Albert Chernyshev said that the Caspian was a lake and thus much depended on how the five littoral states resolved their differences (FBIS, June 9, 1995).

Moreover, the Russian Foreign Ministry asserted that the Soviet-Iranian treaties, especially 1921 and 1940 treaties, should be the basis for the new legal status of the Caspian Sea. The rationale for this was that Azerbaijan, Kazakhstan, and Turkmenistan signed the Alma Ata (now Almaty) declaration of December 1991 that led to the creation of the Commonwealth of Independent States (CIS). The declaration entailed a provision recognizing the validity of all treaties and agreements signed by the Soviet Union. Thus, the Russian Foreign Ministry maintained that the Soviet-Iranian treaties remained in force. Since the treaties provided that both the Soviet Union and Iran had joint sovereignty over the Caspian Sea, excluding the 10-mile national zone, the ministry also asserted that the Caspian should be governed jointly (Horton and Mamedov 2000: 266).

In contrast, Azerbaijan adamantly argued that the Caspian Sea should be divided into national sectors. In the first place, unlike the Russian Foreign Ministry,
Baku provided a different interpretation of the legal designation of the Caspian as a lake. Baku held that the Caspian was a lake and international norms regarding lakes suggested the national partition. For instance, Azerbaijan's Foreign Minister Hasan Hasanov suggested that the Caspian should be divided by stating that “[The] Caspian is a lake and the international conventions say nothing about the status of the lakes. The talk can be only about the practice and Azerbaijan keeps just to this practice” (FBIS, November 2, 1995). Azerbaijan’s President Heydar Aliyev was more specific in his book Azerbaijan Oil in the World Policy. He wrote that

The Caspian Sea falls under the definition of international frontier lake as a water basin without natural connection to the world ocean and surrounded by land territory of two or more states. In this connection the norms of international law, the norms of international ordinary law and local international agreement practice can be put as a base of approach to determine the Caspian Sea status. International frontiers on lakes are set up as a rule on median line. The principle is applied to a majority of international lakes in particular Great Lakes (USA and Canada), Tanganyika and Chad (Nigeria, Chad, Niger, and Cameroon), Geneva Lake (Switzerland and France) (Aliyev 1997: 317).

Azerbaijan also argued that the Soviet-Iranian treaties of 1921 and 1940 lost their validity. In particular, Baku pointed out precedents set by Moscow before the collapse of the Soviet Union, which provided for the division of the Caspian Sea. For instance, Aliyev noted that in 1949 the Soviet Union had begun to develop mineral resources in the Caspian Sea without consultations with Iran (Aliyev 1997: 319).

Thus, the legal dispute over the Caspian Sea began. Later, other Caspian littoral states and external powers, especially the United States, joined the dispute. This Caspian controversy had implications for many issues such as navigation, fisheries management, environmental protection, and hydrocarbon resources. However, it centered on the ownership and control of hydrocarbon resources in the sea.

3. WHAT IS AT STAKE IN THE CASPIAN DISPUTE

After the collapse of the Soviet Union, more advanced Western technology discovered previously undetected oilfields in the Caspian Sea. Yet, it must be stressed that there is no consensus as to the actual amount of energy reserves in the sea (Peimani 2001: 9-17). Various organizations provided different estimates. For instance, one optimistic estimate by the U.S. Department of Energy said that the Caspian Sea might hold as many as 200 billion barrels of oil (Atanesyan 2000: 52). Naturally, the Caspian Sea, at times, was considered as the “[Persian] Gulf of the 21st century” (Hirschhausen and Engerer 1999: 275). However, several analysts
cast doubt on this optimistic estimate by saying that political motive was responsible for the inflation of Caspian energy reserves (Dekmejian and Simonian 2001: 29; Waelde 2000: 31). Later, other organizations provided less optimistic estimates. For instance, in early 1998 the London-based International Institute for Strategic Studies (IISS) released a report, which pointed out that the 200 billion barrels of Caspian oil suggested by the U.S. Department of Energy was an exaggeration. Instead, the amount of Caspian oil reserves ranged between 25 and 35 billion barrels (approximately three percent of the world reserves). Thus, the report suggested that the amount of Caspian oil reserves was not comparable to those of the Persian Gulf, but to those of the North Sea (Nassibi 1999: 110). Later, other studies by the Baker Institute supported more “realistic” estimate by IISS (Atanesyan 2000: 53).

In these conditions, uncertainty about the extent of energy reserves in the Caspian Sea will persist for years to come. Geological tests are not extensive enough to provide reliable assessment. By the mid-1990s only seven percent of the Caspian shelf was explored (Shoumikhin 1996). Even in the early 2000s the exploration was not extensive enough to provide a reliable figure for energy reserves in the sea. Viktor Kalyuzhny, Russian President’s Special Representative for Caspian Affairs, stated in 2002 that “It’s difficult to cite a precise figure for the Caspian fossil fuel resources; its mineral wealth hasn’t been fully explored yet...” (The Current Digest of the Post-Soviet Press [CDPSP hereinafter], April 3, 2002). More importantly, it takes actual drilling to know the exact amount of energy resources (Peimani 2001: 10). Thus, Julia Nanay was right in pointing out that nobody knows whether the Caspian Sea will be “the next North Sea or even many North Seas” (2000: 125).

Indeed, the Caspian Sea brought not only despair, but also hope. On the one hand, there were several disappointing results especially in such offshore oilfields as the Karabakh, the Dan Ulduzu-Ashrafi, the Lankaran-Talysh, and the Yalama in the Azerbaijani sector of the Caspian Sea (Dekmejian and Simonian 2001: 31; Peimani 2001: 12). For instance, some estimated that the Karabakh oilfield contained approximately 900 million barrels of oil. But in January 1999 the Caspian International Petroleum Company (CIPCO) in charge of developing the Karabakh oilfield announced that it closed down its operation after failing to discover enough oil reserves (Financial Times, January 22, 1999). Commenting on disappointment over the Karabakh oilfield, Mike Shearman, President of British Petroleum (BP) exploration, said that “A year ago there was a bit of hype among the oil companies that you’ve got out there.... Then CIPCO took the wind out of their sails” (Financial Times, August 5, 1998).

On the other hand, there were promising results in the Kashagan oilfield in the Kazakhstani sector of the Caspian Sea. Some estimated that the Kashagan oilfield might contain at least 25 billion barrels. A Western oil executive in Almaty
said that "There might be six Tengizes in there [Kashagan]" (Financial Times, May 1, 1997). As a matter of fact, the Kashagan oilfield turned out to be one of the largest discoveries in the past 30 years. The Economist pointed out that proven oil reserves in the Kashagan oilfield were estimated between 18 billion and 35 billion barrels. It then added that the amount of oil reserves could increase "threefold if a big new find off the Kazakh coast proves as promising as results announced by in July [2000] suggests" (The Economist, August 19, 2000).

It must be stressed, though, that even if the Caspian Sea turns out to have less oil than expected, there are several reasons for the importance of Caspian oil reserves especially for the major oil companies. For instance, access to other world-class oil areas is either limited or unattractive. The Persian Gulf is effectively barred to foreign oil companies due to government monopolies and unrealistic terms. Likewise, nationalist sentiment against foreign oil firms has made oil projects in Russia unattractive (Karl 2000: 31-32).

4. APPROACHES OF FIVE STATES TOWARD THE CASPIAN LEGAL REGIME

Russia

Neorealist theory is insufficient in explaining Russia’s approach toward the Caspian legal dispute. In the first place, Russia spoke with two voices: two main competing agencies – the Foreign Ministry and the oil industry faction (the Ministry of Fuel and Energy and Lukoil) – pursued contradictory policies toward the Caspian dispute. To be more precise, the Foreign Ministry called for an assertive policy by declining to divide the sea, whereas the oil industry faction constantly sought cooperation with Caspian littoral states such as Azerbaijan and Kazakhstan by favoring the division of the sea. This demonstrates that concerns about relative gains do not determine the preferences of individual agencies. More importantly, as I will illustrate below, Russia’s policy moved toward cooperation. The neorealist hypothesis has difficulty in explaining this policy direction.

Russia’s contradictory policies were best displayed in 1994. In September of that year Azerbaijan signed the “contract of the century” with a British Petroleum (BP)-led consortium of oil companies. The Russian Lukoil company obtained a 10 percent share in Azerbaijan’s oil project. Stanislav Pugach, Head of the Department of International Cooperation in Russia’s Ministry of Fuel and Energy, participated in the signing ceremony (FBIS, September 30, 1994). Pugach stated at the ceremony that the Azerbaijani oil deal was “highly valued by the Russian government” (Kommersant Daily, September 22, 1994). However, on the same day the Russian Foreign Ministry held an official news conference to
condemn the oil contract as illegitimate. Grigorii Karasin, spokesman of the ministry, stated that Russia did not recognize the legitimacy of the oil deal "with all the ensuing consequences" (*FBIS*, September 21, 1994).

These policy differences were again displayed in 1995. In November of that year the Russian Foreign Ministry sent a diplomatic note to Azerbaijan. The note rejected the definition of Azerbaijan's "sector" as part of its national territory contained in its constitution, which was published as a draft shortly before its adoption in the November 12 referendum. It also warned that Russia considered Baku's claim to sectoral division as "unlawful seizure" and reserved the right to take appropriate measures at a suitable time (Khripunov and Matthews 1996: 45). But around the same time Lukoil signed an agreement with State Oil Company of the Azerbaijan Republic (SOCAR) to develop the Karabakh oilfield which was about 75-miles off the Baku coast. Lukoil obtained a 32.5 percent share (*CDPS*, December 6, 1995). Thus, speaking of Russia's policy toward the Caspian Sea, *The Economist* pointed out that the policy ranged "from enthusiastic cooperation with its friends to cynical subversion of those it finds inconvenient" (*The Economist*, November 11, 1995).

This policy struggle between the two main competing agencies continued for at least four years. The struggle showed a sign of its end when the Foreign Ministry suggested in October 1997 that Russia was ready to accept a compromise solution with Caspian littoral states such as Azerbaijan and Kazakhstan (*FBIS*, October 17, 1997). In February 1998 Felix Kovalev, the ministry's Special Envoy on the Caspian Sea, explicitly stated that Russia's stance was to carry out "a fair division of the Caspian bed" (*FBIS*, February 10, 1998). This indicated that the position of the oil industry faction prevailed over that of the Foreign Ministry. As a result, 1998 became the year Russia began to pursue a consistent approach of cooperation with other Caspian states such as Azerbaijan and Kazakhstan.

**Azerbaijan**

The neorealist hypothesis provides useful insight in explaining Azerbaijan's approach toward the Caspian legal dispute. This country consistently argued that the Caspian Sea should be divided largely because it believed that its sector contained more hydrocarbon resources than that of Russia and Iran. Azerbaijan was the first of the Caspian littoral states to begin actual development of Caspian oil reserves with foreign investment. Negotiations with foreign oil companies on developing the sea's offshore mineral resources began even as early as 1990 (Bagirov 2001: 180). In January 1991, Azerbaijan declared a public tender for the exploitation of the three oilfields in the sea: Chirag, Azeri, and Gunashli (Nassibli 1999: 115). The tender was made jointly by the USSR Ministry of the Oil and Gas Industry and by the Council of Ministers of Azerbaijan (Nassibli 1999: 115).
Following the collapse of the Soviet Union, however, Azerbaijan had complete control over the process of oil negotiations (Financial Times, March 18, 1992).

These negotiations were about to bear fruit in 1993. In June of that year Azerbaijani authorities were about to head for London to discuss final contract terms with an international oil consortium, which did not include the Russian or Iranian oil companies. The conclusion of Azerbaijan’s first major oil agreement with the oil consortium was expected no later than September 1993. Yet hope for the rapid development of energy resources in the Caspian Sea did not come true primarily because of political instability in the country. Shortly before the planned negotiations on the contract terms in London, Azerbaijan experienced painful defeats in the Nagorno-Karabakh war: Azerbaijan lost 20 percent of its territory and approximately one million of the country’s seven million inhabitants became refugees. Moreover, in the midst of this defeat anti-Russian President of Azerbaijan Abulfaz Elchibey was overthrown through a military coup.

In these conditions, Heydar Aliyev, the former first secretary of Azerbaijan’s Communist Party, returned as the country’s leader (Shoumikhin 1999: 41). Then in August 1993 he began to renegotiate the contract with an international oil consortium. In this process, Aliyev, to be sure, was flexible enough to include the Russian oil company Lukoil in the oil consortium (Bolukbasi 1998: 398-399). Nevertheless, he was resolute in his position on the Caspian legal regime. This was most clearly evidenced in September 1994 when Aliyev issued a decree allowing SOCAR to sign “the contract of the century” with a BP-led consortium of oil companies. The 30-year contract provided for the development of the Azeri, Chirag, and Gunashli oilfields in the sector of the Caspian Sea claimed by Azerbaijan. Thus, Baku in effect began to exercise its sovereignty over its sector of the sea (Aliyev 1997: 9-14). Thereafter, it did not change its position.

Kazakhstan

The neorealist hypothesis is applicable in explaining Kazakhstan’s approach toward the Caspian legal dispute. Kazakhstan, like Azerbaijan, never intended to give up its sovereignty over its sector of the Caspian Sea. The country’s economic future was closely linked to the development of energy resources in the sea. Viacheslav Gizzatov, Kazakhstani Deputy Foreign Minister, said that Caspian energy resources were not critical for Russia given the country’s oil reserves in other areas, but this was not the case for Kazakhstan. In his words, “For Kazakhstan, the exploration of Caspian mineral resources will determine how quickly the country will be able to stand on its feet” (FBIS, July 27, 1995). More importantly, Kazakhstan was believed to have the richest energy reserves in its sector of the sea (Babak 1999: 181).

In these conditions, Kazakhstan argued for the national division of the
As a matter of fact, it was Kazakhstan which first signed an oil contract with Western companies, albeit an oil exploration deal. In December 1993 a new Kazakhstani oil company Kazakhstankaspishelf (KCS) signed an agreement with a consortium of seven Western oil companies on exploring the shelf of the northeastern Caspian over the next three years (FBIS, December 10, 1993). In addition, Kazakhstan submitted the draft convention on the legal regime of the Caspian Sea to its littoral states’ meeting in Almaty in September 1995. The convention proposed that every Caspian littoral state should have territorial waters; the width of these zones should not exceed 12 nautical miles; and the water outside territorial waters should be available for common use by all Caspian states. However, the draft convention stressed that the Caspian seabed and its mineral resources must be divided between five Caspian littoral states and each state should have the right to lay underwater pipelines in its section (FBIS, September 27, 1995). Thereafter, Kazakhstan consistently pursued this approach.

**Turkmenistan**

The neorealist hypothesis does not provide useful insight in explaining Turkmenistan’s approach toward the Caspian legal dispute. This is so especially because the country’s position on the legal regime of the Caspian Sea has been ambiguous and has changed several times. On the one hand, Turkmenistan was the first state, which asserted sovereignty over its sector of the Caspian Sea by adopting the Law on the State Border in 1993 (Kommersant-Daily, June 24, 1995). On the other hand, Turkmenistan supported Russia’s Foreign Ministry in opposing the national division of the sea (Kepbanov (1997/98). This ambiguity resulted in part from the Turkmenistani President’s unpredictable behavior. Kommersant Daily wrote that Saparmurat Niyazov had a “reputation for being capable of changing his line of conduct flexibly and imperceptibly, proceeding exclusively from his own interests” (FBIS, June 2, 1995). For instance, in October 1994 Niyazov suggested that Turkmenistan had no objections to the Azerbaijani “contract of the century” with an international consortium (FBIS, October 21, 1994). However, at the Russian-Turkmenistani summit in Moscow in May 1995 Boris Yeltsin and Niyazov signed an agreement, which opposed the national division of the Caspian Sea (FBIS, May 18, 1995).

Turkmenistan’s officials continued to express their opposition to the national division of the sea between mid-1995 and early 1997. For example, the country’s Foreign Minister Boris Shikhmuradov stated that water area beyond 20-40 miles should be a “zone of free navigation and joint decision-making” (FBIS, February 18, 1996). It was only in January 1997 that Turkmenistan appeared to reverse the country’s position. Niyazov told Western media that the Caspian oilfield called Azeri belonged to Turkmenistan “because it is located in Turkmen[istani]
terrestrial waters.” By doing this, Turkmenistan implicitly indicated that it supported the national division of the Caspian Sea (FBIS, January 31, 1997). This change resulted not so much from any geopolitical reorientation of the country’s foreign policy, as from its fear of being late in obtaining a share of the limited foreign financial investments. Commenting on Niyazov’s announcement, Turkmenistani Deputy Foreign Minister Yelbars Kebpanov noted that Ashgabat had to “take the measure in order not to be just a witness during the division of ‘the Caspian oil pie’” (FBIS, February 5, 1998).

Niyazov made Turkmenistan’s position clearer by signing an agreement on the temporary division of the Caspian Sea into national sectors with Kazakhstan in February 1997. At a press conference both presidents stated that “All countries bordering the Caspian Sea must stand by the principle of dividing the water area to a middle line until the Caspian Sea’s legal status is determined.” Niyazov added that during the Soviet period the Caspian Sea was “legally divided into territorial economic zones…. This principle should be observed.” He then stressed that “the CIS agreement clearly stipulates that the borders of every former Soviet republic area [are] indivisible and unchangeable” (FBIS, February 27, 1997).

Yet, in August 1998 Niyazov appeared to change the country’s position by signing an agreement with Yeltsin. The agreement stated that before the adoption of the new legal status of the Caspian Sea, all activity in the sea’s basin must be conducted “in strict accordance with prior agreements concluded between the USSR and Iran, on a consensual basis and with no side taking any sort of unilateral action” (CDPSP, September 10, 1997). But Turkmenistan’s position did not last long. Less than a month later, Turkmenistan announced an international tender for the development of hydrocarbon resources in its sector of the Caspian Sea (FBIS, September 2, 1997). In doing so, the country supported the national division of the sea.

Iran

Iran’s approach toward the Caspian legal dispute does not support the neorealist hypothesis in that the country did not consistently pursue relative gains strategy. To be sure, shortly after the collapse of the Soviet Union the relative gains strategy appeared to play a critical role in determining Iran’s approach toward the Caspian legal regime. The country at first advocated joint sovereignty over the Caspian Sea believing that its sector in the sea, compared with that of Azerbaijan and Kazakhstan, was believed to have much smaller amount of energy reserves.

However, Iran changed its position. Tehran began to show its flexibility on the Caspian legal regime in late 1994. For instance, two months after the signing of the “contract of the century” in Azerbaijan, Tehran and Baku signed an agreement that allowed the National Iranian Oil Company (NIOC) to participate in
the Azerbaijani oil deal. The NIOC acquired a 5 percent share. The agreement also provided for the joint exploration of oilfields in the Iranian sector of the Caspian Sea. As Izvestiia pointed out, the oil agreement between Iran and Azerbaijan implied that Tehran in effect disavowed the Soviet-Iranian agreements of 1921 and 1940, which were cited in the protests of the Russian Foreign Ministry. Therefore, Tehran's stance on the legal status of the Caspian Sea seemed to distance itself from that of the Russian Foreign Ministry. Indeed, Iran's participation in the Azerbaijani oil deal caused great concern. Russia's Foreign Ministry officials began to speak about "bribery" and about "a bone thrown to the Iranians" (Izvestiia, November 17, 1994).

Iran's new stance, however, did not last long. In April 1995 Baku, under U.S. pressure, canceled the NIOC's right to participate in the oil project (FBIS, November 21, 1994). It was from this moment that Tehran voiced its loudest opposition to the national division of the Caspian Sea and again became a close ally of the Russian Foreign Ministry (Financial Times, April 11, 1995). For instance, at a conference on the problems of oil extraction in the Caspian Sea in Almaty in 1995, Iranian Deputy Foreign Minister Abbas Maleki stated that the 1921 and 1940 treaties between Moscow and Tehran remained in force until new legal regime was adopted by all Caspian littoral states. This implied that Tehran and Moscow could claim the right of rejecting any offshore oil development deals with Azerbaijan, Kazakhstan, and Turkmenistan (Financial Times, May 17, 1995).

Thereafter, Iran's stance became ambiguous. In February 1996 Iran began to carry out its first exploration project in its sector of the Caspian Sea (Khajehpour-Khouei 2000: 78). Moreover, in June 1996 the NIOC obtained a 10 percent share on developing the Shah Deniz oilfield in the Azerbaijani sector of the sea (FBIS, June 5, 1996). Furthermore, Iran tried to persuade Western companies and the Caspian states to employ the Iranian pipeline route to transport Caspian oil. Iranian officials advertised that the Iranian route was best especially in terms of economic efficiency. For instance, Hassan Kashkavi, Iranian Ambassador to Kazakhstan, stated that Washington could not "ignore Iran in terms of geographic position" (Din 2000: 19).

However, at the same time Tehran opposed the national division of the Caspian Sea and criticized the unilateral action taken by Baku on numerous occasions. For example, shortly after the first production of early oil in the Azerbaijani sector of the sea in November 1997, Iran's permanent representative to the United Nations sent a letter to UN secretary Kofi Annan stating that "[Azerbaijan's] claim of sovereignty and unilateral exploitation of the resources is contrary to the agreements reached between bordering countries and the legal status for the Caspian. We express our deep objection to the move by the government of Azerbaijan..." (Nassibli 1999: 115).
5. CONCLUDING REMARKS

The Caspian dispute began to show a sign of its resolution in 1998. In July of that year Russia and Kazakhstan signed an agreement on dividing the Caspian seabed while leaving the sea's surface under joint control. In January 2001 Russia and Azerbaijan issued a joint statement that proposed to demarcate the Caspian seabed only (FBIS, January 9, 2004). Therefore, at least three out of the five Caspian littoral states made agreements on how to divide the sea by 2001.

This study has tested the neorealist hypothesis regarding relative gains in explaining policies of five Caspian coastal states toward the Caspian legal dispute. It revealed that concerns about relative gains matter, but not universally. Azerbaijan and Kazakhstan consistently pursued relative gains strategy. Yet, in the case of three other Caspian states, Russia, Iran, and Turkmenistan, concerns about relative gains were not critical in determining the policy direction of these states.

Notes

1 For debates on absolute gains versus relative gains between neorealists and neoliberals, see Waltz (1979); Keohane (1984); Lipson (1984); Grieco (1990); Baldwin, ed. (1993).

2 To be sure, Keohane challenges Joseph Grieco's contention that the state's sensitivity to relative gains is always positive by suggesting that the sensitivity sometimes can be zero or negative. Keohane does not specify the conditions in which the state's sensitivity to relative gains can be zero or negative except in one case. He mentions that in the early Cold War the United States deliberately built up economic capabilities in Europe and East Asia for the purpose of containing a communist threat. Yet, Grieco seems to take this factor into account. He writes that the state's sensitivity to relative gains is always positive "even in interactions with allies except in the face of clear, immediate threats." See Keohane (1993), p. 279; Grieco (1990), pp. 46-47.

3 In the past the best estimates of the oil companies about poorly explored areas have been wrong. The waters off southern China were a case in point. They were believed to contain world-class oil reserves. But this was not the case. See Clawson (1999), p. xi.

References


Kepbanov, Yolbars A. (1997/98) “The New Legal Status of the Caspian Sea is the Basis of
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