The Caspian Basin

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THE EVOLUTION OF TERRITORIAL AND STATUS RELATED DISPUTES, ENERGY TRANSIT CORRIDORS AND THEIR IMPLICATIONS FOR THE EU ENERGY SECURITY

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INTRODUCTION

Just as the rapid melting of the Polar caps has unexpectedly turned distant and dim economic possibilities into viable geo-economic and geopolitical probabilities, so it was with the unexpected and fast meltdown of Russia’s historic empire – the Soviet Union. Once considered as the Russian inner lake, the Caspian has presented itself as an open/high sea of opportunities literally overnight – not only for the (new, increased number of) riparian states, but also for the belt of (new and old) neighbouring, and other interested (overseas) states.

Interest of external players ranges from the symbolic or rather rhetorical, to the global geopolitical, from an antagonizing political conditionality and constrain to the pragmatic trade-off between political influence and energy supply gain. We can identify three most important categories of interests in the Caspian as:

1.) Energy-related economic (and political) interests: referring to the gas and oil resources hidden in the Caspian and their exploitation,
2.) Non-energy related economic interests: extensive fishing options and additionally, the costly and luxurious caviar of the Caspian Sea,
3.) Strategic positioning of the Caspian; location, that is not only part of numerous European-Asian-Middle Eastern crossroads but also applies different ways for setting future pipeline routes, that are (considering what is at stake) part of larger geostrategic and geo-economic considerations. (Zeinolabedin, Yahyaour and Shirzad (2009), p.116)

In this interest driven and conflicting mixture we cannot neglect the power and influence of largest transnational corporations along with new non-state players, which are influencing the regional stability, equilibrium of interests and policy making process.
Hereby we refer to organized radical Islamic groups, organized crime groups and international and nongovernmental organizations, concerned with human rights, democracy building and ecological issues. Additionally, let us not disregard big consumers like China, India or the European Union (EU) that are driven by their own energy imperative: to improve their energy security (including the reduction of external dependencies) as well as to diversify their supplies, modes and forms in the long run. This energy imperative and strive for energy security is, relative to the demand, also of utmost importance when it comes to geopolitics of energy in the Caspian.

On a promise of these allegedly vast oil and natural gas resources (most of which untapped), the Caspian is witnessing the “New Grand Game” – struggle for the domination and influence over the region and its resources as well as transportation routes. Notably, the Caspian is a large land-locked water plateau without any connection with the outer water systems. Moreover, 3 out of 5 riparian states are land-locking Caspian, but are themselves land-locked too.

(Former Soviet republics of) Azerbaijan, Kazakhstan and Turkmenistan have no direct access to any international waters. That means that pipelines remain the only mode of transportation and delivery of carbonic fuels, thus creating yet another segment for competition, and source of regional tension as the 3 riparian states do depend on their neighbours for export routes.

Finally, due to both the not yet officially resolved legal status of the Basin as well as the number of political and territorial disputes in Caucasus and on the Caspian, numerous new pipeline constructions and expansion projects have been proposed, but so far not realized. For the EU, the most important was the Nabucco pipeline, which although not fully guaranteed, served as the hope for reduced dependence on Russia. As of now this goal is currently becoming more and more relevant because of the added complexity to this pending energy issue. Hereby we are referring to the ongoing crisis in Ukraine and the accompanying process of western alienation from Russia in general. This strategic reorientation might not be risk-free for the EU, especially...
if we consider that the Union, in the terms of energy supply, has no alternative option at present state. One might wonder how successfully can the “new great game” translate into the “new cold war” between Russian Eurasia and Western Europe-America, especially considering the geopolitical realities, which are by no means as unilayered and absolute as they were between 1945 and 1991.

The following lines will therefore consider the geopolitical, legal and economic (including the energy security for the final end-user, supplier and transiting countries) features of the Caspian theatre, complex interplays and possible future outlook.

To explain the long lasting Russian presence at Caspian and still prone interest in the region, two factors are at interplay: geopolitical and geo-economic.

Ever since Peter the Great, Russian geopolitical imperative has been to extend the strategic depth. It naturally necessitated towards ensuring the security for its southwest and southern flanks of the Empire. Such a security imperative brought about bitter struggles for Russia over the domination of this huge theatre: Eastern and Central Balkans, Black Sea, Caucasus and Caspian basin. Russia was contested there by the Habsburg Empire, by the Ottomans, Iran (and after collapse of the Ottomans by the Britons) all throughout the pre-modern and modern times.

Just a quick glance on the map of western and southwest Russia will be self-explanatory in showing the geostrategic imperative; low laying areas of Russia are left unprotected without dominating the mountain chains at Caucasus, Carpathian – Black Sea – Caucasus – Caspian – Kopet Dag. Historically, the main fight of Russia was with the Ottomans over this line. When the Ottomans were eliminated from the historic scene, it was Britain on the Indian subcontinent and Iran as the main contesters – the fact that eventually led to effective splitting of the basin into two spheres of influence – British and Russian.
A PROFILE OF THE CASPIAN BASIN

The Caspian (Azerbaijani: Xəzərdəniz, Persian: پهلویانهای‌زه‌رژم یا هاژ‌های‌رژم ناردنام, Russian: Каспийское море, Kazakh: Каспий теңізі, Turkmen: Hazar dəniz) is the world’s largest enclosed or landlocked body of (salty) water – approximately of the size of Germany and the Netherlands combined. Geographical literature refers to this water plateau as the sea, or world’s largest lake that covers an area of 386,400 km² (a total length of 1,200 km from north to south, and a width ranging from a minimum of 196 km to a maximum of 435 km), with the mean depth of about 170 meters (maximum southern depth is at 1025 m). At present, the Caspian water line is some 28 meters below sea level (median measure of the first decade of 21st century)[1]. The total Caspian coastline measures to nearly 7,000 km, being shared by five riparian (or littoral) states.

The very legal status of this unique body of water is still not solved: Sea or lake? As international law defers lakes from seas, the Caspian should be referred to as the water plateau or the Caspian basin. Interestingly enough, the Caspian is indeed both sea and lake: northern portions of the Caspian display characteristics of a freshwater lake (e.g. due to influx of the largest European river – Volga, river Ural and other relatively smaller river systems from Russia’s north), and in the southern portions where waters are considerably deeper but without major river inflows, salinity of waters is evident and the Caspian appears as a sea.
Median salinity of the Caspian is approximately 1/3 relative to the oceanic waters average. The geomorphology of the Caspian is unique and many authors have referred to the formation similarities of the Black Sea–Caspian–Aral and their interconnectivity back to Pleistocene. Most probably, some 5,5 million years ago two factors landlocked the Caspian: the tectonic uplift of the basin and the dramatic fall of the earth’s oceanic levels which literally trapped the Caspian to the present shores. Due to its unique formation and present water composition variations, the Caspian hosts rare biodiversity and many endemic species of flora and fauna (presently, threatened by rising exploration and exploitation of vast oil and gas reserves).

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THE INNER CIRCLE

The so-called “Inner Circle” of the Caspian Basin consists of the five littoral (riparian) states, namely Russia, Iran, Azerbaijan, Kazakhstan, and Turkmenistan, sharing the common coastline. As much as the geographically distant as well as different by their distinctive geomorphology and hydrology, the Arctic and Caspian however resemble several critical similarities.

Both theaters are grand bodies of water surrounded by 5 riparian/littoral states. Both theaters are of huge and largely unexplored natural resources and marine biota. Both theaters have numerous territorial disputes and are of absolute geopolitical importance for the littoral states, and beyond. Finally, both theaters were until recently also of not completely resolved legal status – drifting between an external quest for creation of special international regime and the existing Law of Sea Convention system (UNCLOS).

Ergo, in both theaters, the dynamic of the littoral states displays the following:

1. **Dismissive:** Erode the efforts of international community/external interested parties for creation of the Antarctica-like treaty (by keeping the UNCLOS referential);
2. **Assertive:** Maximize the shares of the spoils of partition – extend the EEZ and continental shelf as to divide most if not the entire body of water only among the Five;
3. **Reconciliatory:** Prevent any direct confrontation among the riparian states over the spoils – resolve the claims without arbitration of the III parties. (Preferably CLCS).

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[1] The Caspian basin records gradual and cyclical water level variations that are basically synchronized with the volume discharge of the Volga river system and co-related to the complex North Atlantic oscillations (amount of North Atlantic depressions that reach the Eurasian land mass interior).
One of the most important differentiating elements of the two theatres is the composition of littoral states. We can consider the constellation of the Arctic Five as being symmetric – each of the Five has access to the open sea (as the Arctic itself has a wide connection with the oceanic systems of Atlantic and Pacific). On the contrary, the Caspian Five are of asymmetric constellation. The Caspian Five could be roughly divided on the old/traditional two (Russia and Iran), and the three newcomers (Azerbaijan, Kazakhstan and Turkmenistan). This division also corresponds with the following characteristic: only Iran and Russia have an open sea access, other three countries are landlocked – as the Caspian itself is a landlocked body of water.

When it comes to energy transport and production, relevant trade and economic cooperation is needed concerning national interests of particular Caspian littoral states as well as holding and developing projects in multi-sided cooperation format. Such prolific cooperation is most vividly developed between Russia and Kazakhstan. The commonly recover oil deposits - Russian "Central" and "Hvalynskoe" and Kazakhstan "Kurmangazy", have founded the Caspian Pipeline Consortium, which is an operator of the pipeline "Tengiz-Novorossiysk" and ltd. "KazRosGas", one of its key projects is sour gas processing from Karachagan deposit at Orenburg gas-processing plant. Regarding energy transportation, an important result was concluded at the Astrakhan in July 2010 meeting which is to found the Caspian Sea Association of ship companies (EIA, 2012).

Furthermore, concerned regions have been encouraged to develop railway links between the Caspian region countries. The Russian Railways, for example, hold a project of direct railway links between Russia and Iran in the Caspian region within forming of common railway infrastructure of the international transport corridor "North-South" that connects major cities such as Moscow, Tehran, Mumbai, Baku, Astrakhan.

The final link of the railroad infrastructure between Kazakhstan, Turkmenistan and Iran was inaugurated in late 2014 (Railway Gazette, 2014).
RUSSIA

Russian Federation controls the north-western shore of the Caspian Sea. Russia's foreign relations with the west that are in the light of the recent Ukrainian crisis not predominantly overwhelmed with energy-politics anymore, have experienced a series of additional setbacks in the recent years.

With regards to the Caspian Basin, only a negligible part of Russia’s extensive reserves appear to be located in the Caspian Basin. Therefore, Russia has rather adopted a strategy of involvement in the energy business of the other, better-endowed riparian states by means of joint resource development (production revenues) and granting access to the Russian oil and gas pipeline system (transport revenues). The main players in this field are the state-owned companies Gazprom, Rosneft, and Transneft as well as numerous large private energy enterprises like Lukoil, Sibneft or Yukos (Crandall (2006), pp. 120-3).

In the light of the loss of economic influence in the Caspian after the dissolution of the Soviet Union, due to the overwhelming preoccupation with preserving the strategic influence in the region (following the sort of “Morojeski doctrine” (Kubicek (2013), n.p.a.), Russia’s views dramatically shifted in the 2000s from politico-security aspirations to also largely economical. To this end, Russia turned to bi- and multilateral agreements with Caspian littoral countries to secure its economic interests in the basin. With its unique policy, called “common waters, divided bottom”, it moved closer to Kazakhstani and Azerbaijani stance, following the principle of dividing the seabed into proportional national sectors (therefore, following the UNCLOS principle), while maintaining the common management of the surface waters, preserving free navigation and common ecological standards for all littoral states (thus, partly following the lake principle by excluding the international community).

Due to this efforts Russia was able to secure an agreement on the division of the Northern part of the Caspian with Azerbaijan and Kazakhstan in the early 2000s, while still strongly affirming that the five-party consensus continues to be the only way to the final decision on the legal status of the Caspian. (Zimnitskaya and Von Geldern (2010), p. 10)

The major downside of this agreement has been that it is completely dependent on the good relations between littoral states and therefore dependant on the current geopolitical realities of the Caspian.

[2] There was an interesting feud in Russia between the Ministry of Fuel and Power and Ministry of Foreign Affairs and these clashes have led to Russia’s varying position on the Caspian legal status in the 1990s. For example, while the Ministry of Foreign Affairs was pressing Kazakhstani and Azerbaijan on the final status of the Caspian, state owned corporations under the Ministry of Fuel and Power did not support any of these efforts and were instead even leading negotiations on their own. Moreover, they even supported the sovereign claims of new states over parts of the basin in order to start and secure business opportunities. The situation became even more bizarre, when Ministry of Foreign affairs was threatening to disrupt all Azerbaijani operations in the Caspian as illegal, due to the fact that the operations were following the division, would be made by UNCLOS, while the Ministry of Fuel and Power was assisting with this projects. The final winner was the oil companies, starting with Putin coming to power. At the beginning of his presidency we witnessed an addition to priorities in the Caspian from political and strategic into economic, too.

[3] With this division, Russia would receive 18.5% of the Caspian seabed, while Kazakhstan would get 29%, Azerbaijani and Turkmenistan approximately 19% and Iran would be left with 14%.
Also, we must consider the Iranian defiance in this solution, since it diminishes its political and economic role in the basin[3], for it leaves the country with the smallest share and deepest waters. For now, with the successful agreement in the North, the division looks like displayed in Figure 2.

Regarding intra-regional relations in general, Russian concerns about the influence of the EU and the US[4] in the Caspian Basin have increased in the recent past due to the eagerness to regain its role as a major power. Above all, the emergence of Azerbaijan as a major ally of the West has caused dismay in Moscow.

As for Iran, the historically adverse relations have improved in some areas as the two powers still share a number of mutual interests in the Caspian Basin, for instance the opposition to growing Western interference in regional affairs or the proposed construction of a trans-Caspian pipeline. (Dekmejian/Simonian (2003), pp. 75-9 and 83-9)

**IRAN**

Occupying the southern coast of the Caspian Sea, the Islamic Republic of Iran has been ruled by conservative forces. Since the controversial re-election of President Mahmoud Ahmadinejad in 2009, the gap between conservatives and reformists has even widened[5].

Western relations with Iran have lead to sharp tensions and possible tougher sanctions due to the Iranian nuclear programme; the strategic and geopolitical realities of this issue are a subject of a different debate.

As far as energy is concerned, even though Iran is among the world’s leading oil producers, and the second largest producer of natural gas, regarding the Caspian Basin, Iran’s share of the local oil and gas reserves is negligible, just as in the case of Russia.
Moreover, FDI in the energy sector has been hampered due to the continuous conflicts with West over the nuclear issue. (Crandall (2006), pp. 120-3) But because of its status as a regional power as well as its unique geographic position between the Caspian basin and the Persian Gulf, Iran remains an attractive transit country. That also grants him power and wide range of possibilities for gaining influence as a Caspian littoral state on the one hand, but also means great exposure when considering other geopolitical gaming in and around the Caspian, the most influential being the US grand interests in the Persian gulf[6]. For Iran, most threatening consequences of this strategic gaming are the frequent calls of American administrations to the regime change in Iran and a choke-hold on their interests within the oil industry, namely the helplessness within OPEC, where Iran is silenced with cordial voting of the GCC[7] states and the lack of manoeuvring space in the international oil market.

Foreign policy priorities have been affected by its past dominance as well as the religious ties with the Republics of Azerbaijan, Kazakhstan and Turkmenistan. However, these newly independent states (NIS) see Iran’s potential in cheap transit routes for oil and gas rather than the Iran’s perspective.

Of the most concern are Iran’s relations with Azerbaijan, hampered due to Azerbaijan’s westward cooperation on energy matters (Dekmejian et al. (2003), pp. 79-83) and the contradicting positions on defining the legal status of the Caspian[8].

Additionally, the ethnic Azeri minority makes up to nearly quarter of Iran’s population[9], many of whom claim their rights being abused, causing further tensions between the two nations. An economically strong and independent Azerbaijan, gaining acknowledgement on the international political stage, could potentially incite the Azeri population in Iran to its own nationalistic movement and threaten Iranian territorial integrity.

To prevent Azerbaijan to rise any further as a global oil player might as well be seen as an Iranian strategic goal. (Croissant and Aras (1999), p.29) Nevertheless, Iran does not generally promote discrimination of the Azeri minority, because their intellectual and economic elite is very well integrated in the Iranian society. The textbook example for this is that the father of Ajetolla Khamenei is an Azeri. (Pivariu (2014), p. 163)
AZERBAIJAN

Controlling the western side of the Caspian Sea, Azerbaijan holds a crucial position between Central Asia and Europe. The country is led by President Ilham Aliyev, whose re-election in 2013 fell short to the Western standards[10] and he continues to keep the country strongly in accord with its traditional strategic orientation, focus and priorities.

Heavily dependent on the oil sector, the State Oil Company of Azerbaijan Republic (SOCAR) was created to efficiently benefit from the abundance of hydrocarbon resources in the respective sector of the Caspian Sea. Subsequently, the foreign-SOCAR partnerships have attracted considerable FDI to the region. (INOGATE (2004), p. 20) By 2010, after signing the so-called “Contract of the century” with 13 leading world oil companies[11] in 1994, an amount of 8 billion dollars has already been invested in exploration and development operations in the sectors of the Caspian Sea that “belongs” to Azerbaijan according to the UNCLOS provisions and additional 100 billion are expected to be invested in the forthcoming 25-30 years. Overall, with the help of the booming oil sector, the country has managed to stabilize its internal economic turmoil, left after the dissolution of the Soviet Union and achieve significant economic growth (Zimnitskaya and Von Geldern (2010), p. 10)

When it comes to the Caspian, Azerbaijan has been very vocal on pronouncing the Caspian as sea, therefore subject to international law, from the very beginning. This stance can be easily understood, if we consider that Azerbaijan would benefit greatly with this ruling, especially considering that economic stability has been a way for Azerbaijan to deter its powerful neighbours Russia and Iran (for reasons including the division of the Azeri territory after the Russo-Persian war in 1828 and the more contemporary conflict over the Nagorno Karabakh region) and sustain sovereignty as well as keep alliances. (Zimnitskaya and Von Geldern (2010), p. 7)

Concerning foreign policy, Azerbaijan’s goal has been to balance between Russia and West. Most worrisome are however the above mentioned unresolved conflicts with Armenia over the statues of Nagorno Karabakh province and fragile relations, mostly due to pipeline disputes, with Turkmenistan. (Dekmejian et al. (2003), pp. 74 and 92-5)

[7] Gulf Cooperation Council, consisting of the member states of Saudi Arabia, Bahrain, Kuwait, Oman, Qatar and United Arab Emirates.

[8] At the beginning, Iran was strongly asserting that Azerbaijan is, along with other former republics of Soviet Union, a successor to all the treaties, signed between Iran (or Persia) and the Soviet Union. Later on, although never fully deviating from this position, Iran was also a strong supporter of the condominium solution, along with Russia. But when it lost Russia as an ally on this matter (because of Russia’s efforts to form a closer bond with neighbouring Azerbaijan), it opted for the lake solution of the Caspian, which is what the official position of the country remains to this day. Azerbaijan, on the other hand, has strongly denied all these positions and has been lobbying for the Caspian to become subject to the UNCLOS treaty for a significant amount of time. This would give way for a diminished role of Iran in the Caspian, along with the realistic threat of bringing foreign military vessels into the Caspian, therefore, on Iranian borders.

[9] Although, hundreds of years of separation and living under very different state systems (Tsarist Russia and the Soviet Union vs. Persia and the Shiite Iran) makes it difficult to determine whether or not what unites the Azerbaijanis and the ethnic Azeri in Iran is stronger than what makes them different or vice versa. (Pivariu (2014), p. 163).
KAZAKHSTAN

Controlling the northern and north-eastern shores of the Caspian Sea, Kazakhstan reluctantly declared independence from Soviet Union in 1991. Led by perennial President Nursultan Nazarbayev, the country has not drifted far from its traditional political culture. In 2015, Nazarbayev won another presidential mandate.

Holding the greatest share of Caspian oil in its national sector, Kazakhstan’s foreign policy is influenced by its dependence on Russia as a primary energy transit route, though the infrastructure network is sufficiently developed for Kazakhstan to clearly benefit from exports of oil and gas to foreign markets. Additionally, the growing inflow of FDI from China signals the rising importance of cooperation with east. Due to these vast energy resources in possession, Kazakhstan’s decision on energy export routes is highly important for the (in) stability of the current power game in the Caspian.

It has also huge pipelines carrying energy reserves:

- Expanding the existing route through Russia to the Black Sea coast (the Caspian Pipeline Consortium); the first phase of increasing the incremental capacity was completed in February, 2015, by the joint venture of Chevron and CPC. The added capacity will likely double the daily transfer capacity by the end of 2016. Many see the CPC expansion as the wildcard for Russia, because the increased capacity could, in turn, diminish the need of Kazakhstan to push for the Trans-Caspian pipeline project (Kandiyoti, 2012);

- Feeding additional oil into the western BTC through the Aktau-Baku subsea pipeline (Marketos (2009), p.4) or;

- Raising the importance of the energy flow to the East through Kazakhstan-China pipeline. (EIA)

[10] By no means are these universal standards and this same argument applies to all the Central Asian states (and many more). We should always keep in mind that for the Western world, an ally state that has a non-democratic regime (for example, the GCC states) is by default and in accord with the realistic theory on international relations granted understanding and support, whereas a non-ally state, that displays non-democratic features (for example, Caspian littoral states, more recently, Russia), is condemned for them, even if the democratic standards fall far shorter in the ally state. As in most other cases, the label “democratic” is part of a wider strategic (re)consideration.


[12] There is a second similar pipeline project, named Dauletabad-Khangirran, inaugurated in 2010. It is planned to begin with construction in the near future.
Until recent years, Turkmenistan has been in rather isolated position under the rules of former President Saparmurad Niyazov and current President Gurbanguly Berdymukhammedov. Due to deviation from western standards on democracy and policy making, foreign investors previously showed little willingness to participate in exploration and exploitation of abundant energy resources, (Crandall (2006), pp. 92-5) which is gradually but perpetually changing.

Recent developments have therefore marked a new era with respect to Turkmenistan’s position in the energy game, with newly inaugurated China and Iran pipelines and pledges to supply the Nabucco pipeline (when the project was still alive), the country has not only diversified its supply routes, but also offered the central Asian countries the opportunity to lessen their dependence on Russia as a major energy supplier.

Turkmenistan was also the first country in the Caucasus to secure an energy contract which was completely bypassing Russia. This was done through Korpezhe-Kurt Kui pipeline, supplying Turkmeni gas to Iranian markets[12]

In the aftermath of the Korpezhe-Kurt Kui project, Turkmenistan has become extremely ambitious when it comes to constructing new energy routes:

- the proposed East-West pipeline, envisioned to connect south-eastern Turkmeni gas fields with the Caspian (also creating a gate-way for Turkmenistan to European markets),
- the proposed Trans-Caspian pipeline, envisioned to transfer Turkmeni gas to Azerbaijan via the Caspian sea, where it could easily connect to the pipelines heading for Europe. This plans also effectively bypass both Russia and Iran, but its major downfall are the bad relations between Turkmenistan and Azerbaijan over the demarcation of the Caspian basin;
- Turkmenistan- Afghanistan- Pakistan- India (TAPI) pipeline, envisioned to meet new Asian energy markets in Pakistan and India. But the project has very dim prospects of succeeding in the near future due to the complex security and logistical issues. (EIA)
OTHER EXTERNAL ACTORS

Other players from the international community have been able to enter the Caspian game rather successfully due to the following three important reasons:

1.) The three former Soviet republics were in desperate need for technology and capital to exploit the hidden Caspian resources; the outside involvement was therefore seen as crucial for developing drilling and export capabilities and also distancing Azerbaijan, Turkmenistan and Kazakhstan from Russia;

2.) The Caspian basin is land-locked, therefore dependent upon pipelines and shipping through other neighbouring states to get to consumer markets. Upgrading old Soviet pipelines and building others became pivotal for the economic stability of the regional countries and it also gave way to major strategic planning of these new pipeline routes;

3.) The three post- Soviet Caspian littoral states were not very powerful in regional, let alone global terms. Newly independent, with weak militaries, barely functioning economies and great prospects for domestic or external conflict, they were an easy target for other interested parties, looking to exploit these circumstances. (Kubicek (2013), n.p.a.)

With regards to the transshipment of hydrocarbon to the international market, the importance of the interests and the state of political environment in countries such as Georgia, Armenia, Turkey, Uzbekistan, Afghanistan, India and Pakistan, commonly referred to as the Outer Circle, needs to be remembered.

At the beginning of the energy hype around the Caspian, Turkey felt they can exploit their culture (considering that the Azeris, Turkmen, Kazakhs, and Uzbeks are all Turkish peoples) and its status as a modern, successful state to gain major influence in the region. Unfortunately, this perception proved to be by far a too optimistic one; although Turkish construction firms seem to do well in securing businesses in the region, when it comes to investment and major energy projects, all Caspian states seem to prefer Russian, American or European investors.

An important aspect for Turks is the BTC pipeline, which connects Turkey directly to the Caspian region, although most of the country’s energy needs are still met through pipelines coming from Russia, most notably the Blue Stream. But, as it always is with the unpredictable strategic gaming in the Caspian, with the suspension of the Nabucco (Nabucco- West) and recently,

[13] Iran undoubtedly represents a critical area of interests for India regarding her energy security, for it provides the country with shortest supply routes without major choke points in between. The invigorated India-Iran strategic partnership from 2003, that was diminished due to the US meddling, would also be beneficial not just for India’s energy and Iran’s economic security but also for the strategic balance and the security enhancement of the whole region, since both India and Iran are similarly concerned when it comes to issues like Afghanistan, Pakistan and the most recent, ISIS.

[14] Or, in the words of the former president of Kyrgyzstan Akayev, “God and geography gave us Russia” (Kubicek (2013), n.p.a.).

[15] This new agenda is forcing Russia into ever more delicately fine-tuning the process of balancing China’s power in the SCO, preventing her from becoming the dominating force within the organization. The equality of China and Russia in SCO in one of the foundations for its membership, because the Central Asian countries, parties to the SCO, depend on Russia to keep the ever stronger China and her influence balanced in their backyard.

[16] The concept of a New Silk Road is, much like the ancient one, envisioned to be an economic belt, an area of economic cooperation, a vision of China for the interdependent economic and political community spanning from the shores of Pacific to the murky waters of the Western Europe.
the South Stream Project, it has become evident that Turkey could play a much more crucial role in the future of pipeline diplomacy.

For now, both the EU and Russia are entertaining themselves with a dream of a gas route through Turkey: EU sans Russia, with a starting point in Azerbaijan and Russia with a stream of gas flowing from Russian fields, through Greece and Turkey. We have yet to witness which Southern Corridor strategy will be implemented. What is clear though is that Turkey gained greatly in her starting position because of the zero-sum gaming process between Russia and the EU, so her expectations of being an important (pivotal) transit country can become a reality in the near future; we will explore Turkey’s role in the upcoming developments of the Caspian pipeline gaming in greater detail in the following chapters.

Also very important for the gaming in the Caspian are India and Pakistan and their growing energy needs. They both backed the proposed TAPI pipeline, although the prospects for this pipeline seem dim at the moment. Other than that, India has a vivid cooperation with Iran[13] in the field of gas supply, it gained rights to develop two Iranian gas fields and is in the midst of discussing a pipeline route from Iran that would traverse Pakistan. (Kubicek (2013), n.p.a.)

Additionally, with regards to the global players such as United States, the European Union, China and Japan, the interest into the Caspian region can not only be limited to promoting general political stability and seeking access to Caspian oil and gas resources, but extending to see Caspian states as the new potential market for western products and FDI.
The United States, although lacking the advantages of historical linkage and geographic vicinity that favours Russia[14], managed to gradually insert themselves into the region. Initial involvement predominantly included investments made by major American corporations, that gained substantial percentages in large-scale projects mainly in Azerbaijan and Kazakhstan. Empowered by this great outset of events, the US slowly became more ambitious.

In accordance with their struggle to keep the vision of the unipolar world alive and relevant, they introduced a new important strategic goal for the Caspian: drawing pipeline ways that would completely bypass Russia and therefore diminish her influence in the region. But the “Events have not transpired as those in Washington hoped or those in Moscow feared” (Kubicek (2013), n.p.a.): Russia’s strategic influence did not dissipate and besides Azerbaijan, the US has no other major ally among the Caspian littoral states. Although, when it comes to strategic alliances in the countries, surrounding the Caspian riparian states, on the contrary is true.

China has moved from the somewhat silent presence immediately after the collapse of the Soviet Union to the more active involvement in the recent years. Much like in Africa or in the Middle East, this involvement is predominantly powered by the grand energy needs of the country.

And much like in Africa and the Middle East, China has great prospects for success because it seems like a less threatening partner than Russia or the US, not to mention the absence of historically denoted relations.

It has first managed to enter the region through the Shanghai co-operation organization (SCO), which has stretched from having predominantly security-oriented goals into also energy-concerned forum, thus effectively introducing China into the energy politics of the region[15]. Central Asia and with it, the Caspian Basin, is also part of the China’s new policy of the “New Silk Road[16]”, stretching from China all the way to Rotterdam, Netherlands.

At the moment, though, China is mostly present in the Kazakhstani oil sector and the Turkmenistan gas sector.
Also, we must consider the collision of Chinese energy security needs and Iranian search for new energy partners after the harshening of western sanctions due to the Iranian nuclear programme. Both China and Iran have gained greatly with this enhanced cooperation; China with securing more energy supply deals and Iran, in return, preserving its state of economic development and stability.

Also very active in the region have been the EU, European states and European firms. Among companies, the most active presence has been displayed from BP, Royal Dutch Shell, British gas, Total, Agip and Eni.

Mostly, the European governments handed their great support for private investments in the region, which basically meant they were in line with the Washington’s goal of diversification of the energy market and with it, bypassing Russia and Iran as much as possible.

Although they have been more inclined to acknowledging the possible environmental issues for certain pipeline routes, the main focus (in a true European style) nevertheless remains diminishing the dependence on Russia for energy supply. (Kubicek (2013), n.p.a.) With the failure of the Nabucco project, this goal seems very unlikely (for the time being).
Given the geographical position of the states surrounding the Caspian Sea, the landlocked countries are highly dependent on the instabilities along the respective transit corridors. The following chapter will subsequently deal with the conflicts endangering the transportation of oil and gas to the European market.

Post-Soviet border issues between Caspian littoral states

Following the dissolution of the Soviet Union, the Caspian littoral states have been involved in various negotiations on the border issues, however most of them have been solved without major security issues. The main source of disagreement is caused by the controversial issue regarding the access to the Caspian Sea and consequent legal definition of the water plateau.

Since the discovery of a number of gas and oil fields, located mainly in the midst of the Southern Caspian Sea, each littoral country has claimed to be their rightful owner. Regarding the sea borders, the preeminent issue is therefore the division of offshore oil and gas fields, mainly between Azerbaijan and Turkmenistan and this issue has pitted the countries against each other since the 1990s. It reached a very hostile stage in 2001, when the rhetoric on both sides implied gestures aiming at military threats. They were accusing each other of illegal exploration, development and/or operation on the disputed oil fields, and violation of territorial waters with military and non-military vessels. Situation worsened with Baku purchasing two American military boats, which was viewed as a provocation on the Turkmen side and ignited the arms race between the countries.
Luckily, in 2003 and 2004 the situation shifted towards efforts for the diplomatic solution, but the countries have yet to find a satisfactory long-term answer to these pending issues. (Peimani (2009), p.186)

Probably the biggest issue, when it comes to precise delimitation between the Caspian littoral states, is precisely in the hidden natural reserves and the unfortunate fact that international boundaries were introduced into the region long after the pipeline system of extreme proportions and complexity has been constructed.

When building the transmission network, little consideration was given to the international frontiers between the former republics. We could go as far as to say that in many cases, deliberate interdependencies were built into the system. This in turn meant that after the dissolution of the Soviet Union, each of the newly independent republics laid their own sovereignty claims to the pipeline network. The troubling effects of these disputes have of course been endless disputes over transit fees, fuel prices and interference in energy transmission, sometimes leading to blunt political blackmailing (Kandiyoti (2012), p. 12).

NAGORNO-KARABAKH CONFLICT

The roots of this Armenian – populated enclave, de jure situated in the territory of Azerbaijan, de facto independent republic situated southwest of Azerbaijan, date back to the early 20th century, when the “divide et impera” principle was executed in order to ensure dependence of the Soviet Union central government via conscious creation of divisions in the region.

The proclamation of the internationally not recognised Nagorno-Karabakh Republic, in 1991, marked the beginning of a bloody war, which despite enormous efforts by the UN was finally brought to ceasefire in 1994 by Russia.

For the purpose of settling the long-term conflict, officially mandated by UN, the Minsk Group was established in the OSCE framework. However, till present, claiming more than 25 000 deaths and 1 million refugees, the main issue remains unsolved. There are still frequent incidents in the contact area between the Azeri and Armenian troops that claim about 20 lives each year. (Pivariu (2014), p. 149)

The division in this case is twofold: ethnic (Armenians- Azerbaijani) and religious (Catholic-Muslim) and the conflict itself consists of three interconnected components:
The issue of refugees, solvable through various rounds of negotiations and, according to experts, has to conclude in the near future with refugees returning to their native places;

-Drawing the borders on disputed territories, also solvable through negotiations;

-The status of Nagorno-Karabakh, which continues to be the most difficult and important issue. The OSCE Minsk group has suggested solving the issue on the basis of three different principles: non-use of force or threats of force, territorial integrity and the peoples’ right to self-determination. Future will tell which one will be the most applicable for the countries involved in the conflict. (Pivariu (2014), p. 202).

Recent developments have brought no changes to the so-called “frozen issue”. In Russia hosted Sochi talks in March 2011, both parties expressed commitment to peaceful resolution, yet no willingness for concessions. The issue remains critical as the Nagorno-Karabakh conflict outcomes might spark similar outcomes within the Caucasus region.

Georgia, declaring its independence from Soviet Union in 1991, has witnessed several unrests and wars due to the breakaway regions of South Ossetia, Ajaria and Abkhazia.

The region of South Ossetia has been mainly under the control of Russian-backed de facto government, with preference from South Ossetians to be integrated into the Russian Federation. Similarly to South Ossetia, the region of Abkhazia has over the years become more dependent on Russia for financial aid.

Continuous tensions in breakaway regions of Abkhazia and South Ossetia led to a war between Russia and Georgia in 2008 and initially towards the recognition of breakaway regions as independent states by Russia. With regards to future outlooks, the situation in the region remains tense, with the necessity of international mediation.

Despite this fact, the continuation of the OSCE Mission to Georgia was vetoed by Russia in 2009. Unlike the above mentioned conflict regions, the breakaway region Ajaria was successfully re-integrated into the Republic of Georgia in 2004. Known as a strategic region, its capital, Batumi, hosts the key port linked to the oil rich regions of Azerbaijan and Kazakhstan.

CONFLICT ZONES IN THE NORTH CAUCASUS

North Caucasus, remarking another important route for westward transportation of oil and gas, is highly affected by instability and separatism in the region. The roots of these conflicts can be traced to Soviet era, where ethnic groups were both artificially united or separated over different territories. Up to present, the conflicts have remained unsolved, destabilising the region excessively. (IRSN (2006), pp. 7-9; Baev (2004), p. 100)

One of the most devastated regions of North Caucasus is namely Chechnya, occupied by separatist forces that have led to countless terrorist attacks and violent actions both in and outside the region. Initiated in 2007 by President Ramzan Kadyrov, the radical stance on peacekeeping has somewhat ameliorated the situation within the region.
However, recent terrorist attacks by rebellious Chechen groups signal the imminent threat that still surrounds the region.

The semi-autonomous region of Dagestan, located strategically on the shore of Caspian Sea, has recently developed into the new trouble spot of North Caucasus. Being the most linguistically and ethnically diverse regions of North Caucasus, it has seen the violent emergence of Islamist insurgency. In recent years it gained some importance as a viable transit corridor for a bypass pipeline from Azerbaijan to the Russian port of Novorossiysk, which was built to avoid crossing the unstable Chechen territory.

Unfortunately, though, Dagestan itself has turned into regional hot spot. For almost a decade, a low-level guerrilla war has spilt over from the western neighbour, and both religious extremism and ethnic rivalries have been on the rise. The diversity within Dagestan paves forth a complex situation, which could outplay in similar scale of gravity with that of Chechnya. (Galeotti (2014), p. 10-11)

Overall, conflicts are to be accounted with in remaining republics of North Caucasus, recently identified as cancerous tumour by Russia’s former President Medvedev and the separatist forces are yet to be fought. (ibid)

KURDISH SEPARATISM IN TURKEY

Similar to its neighbours, Turkey assumes a key role for westward transportation of oil and gas[17]. Occupying the ethnic minority, the Kurds have continuously striven for the creation of an independent state, destabilizing the situation within the region. Since they represent the largest ethnic minority in the world without their own country, their desire for independence is somewhat expected.

They are led by the Kurdistan Workers Party, considered as a terrorist organisation by both EU and US that has until recent years opted for violent means for achieving the ultimate aim- an independent state consisting of Kurdish-dominated parts of Turkey, Iraq, Iran and Syria. Also important for the movement was the recent Arab Spring, which worked as a catalyst for a while. However, in 2013, developments have signalled a new hope towards ending of the conflict, as support for the military

[17] Since establishing the “zero neighbourhood problems” policy, with the ultimate goal of enhancing economic cooperation in the MENA and the Central Asian region, an important goal of Turkish government administration has been to position the country as the main crossroad for any oil or gas coming from Russia, the Caspian, Central Asia and even Middle East, on its merry way to Europe.

[18] Öcalan has been incarcerated since 1999 and has shown significant change in his stance following the imprisonment. He started to opt for the peaceful resolution of the Kurdish issue (in Turkey and elsewhere, likewise) and proposed a ceasefire on the eve of Kurdish new year in 2013. The ceasefire was welcomed by the Turkish Prime Minister Erdogan and by the PKK. We have yet to witness the full (long-term?) effects of this (present) commitment to implement Öcalan’s proposal. (Öktem, 2014)
operations of PKK has lessened and the Turkish government has finally expressed readiness for negotiations with Abdullah Öcalan, the leader of PKK[18].

But following these promising events another destabilisation factor for the Kurdish question came in the form of militant Islamic movement ISIS. Growing due to the security loophole created by the American invasion of Iraq (which eliminated any state security forces worth mentioning and introduced the Shiite led government in Baghdad for the majority of Sunni population), and having its roots in the western support for the anti-Assad militant fighters in Syria, this extremist Sunni force has swiftly gained territories from Iraq to Syria, pressing onto the Syria-Turkish border, where the majority population are Kurds.

The border city of Kobane and its inhabitants soon found themselves at the heart of the battle, with the city representing a prime example for a complex geopolitical crossing not just for Turkey and Kurds, but also for Shiite-Sunni religious divide and the impacts of the western foreign policy in the Middle East. Unfortunately, Turkey is now experiencing a spill over effect from the Syrian crisis and the ISIS gaining momentum in the Middle East and the violence between the government and Kurds have sparked once again after 2 years of effective cease fire (Global Conflict Tracker, 2015).

In the overall chaos that is slowly deteriorating the region, accompanied with a huge emigration crisis, pressing on Turkey, violent activities between the governmental security forces and Kurdish separatists is on the rise again.

With the security and stability of the region on the rocks, there are resurrected talks of the Kurdish state that could be formed in the chaos currently existing in the region. Not surprisingly, that has deteriorated relations between Turkey and its ethnic minority, bringing concern to many other prominent political and security figures in the world.

GENERAL IMPLICATIONS OF THE TERRITORIAL CONFLICTS

To conclude, the territorial conflicts in the region are manifold. Whether they are separatist movements, ethничal grievances or terrorist activities, they all add to instability of the general business environment, threatening the exploitation and transportation of Caspian oil and gas reserves. Additionally, these disputes might serve as catalyst for transnational crime and act as major political risk which might deter all forms of investment into the region. (Nuriyev (2007), p. 157)
OTHER SECURITY CONCERNS

Besides territorial conflicts, there are three other major security concerns in the respective area of the Caspian and Central Asia. One is terrorism activity and the proliferation of weapons of mass destruction (WMD) that is escalating in the light of the progress of ISIS in the Middle East. The other is the problem with drug trafficking in the Central Asia and the last one is not that commonly mentioned problem of environmental security, that is understandably in contrast to the much more powerful energy industry and exploitation.

Alongside with border disputes of different means and origins, these issues, too, can be of great concern for the overall economic development of the Caspian, which can be maximized only in a stable in secure environment.

TERRORISM AND THE PROLIFERATION OF WMD

The Caspian states see terrorism as one of the major foreign and domestic threats, not just in political sense for threatening the pivotal state institutions but also in economic terms, since terrorist actions can target major pipeline infrastructure in the process of gaining their goals or widespread attention. Ever since 9/11, all of them (with the exception of Iran) have tightened their security measures in response to this threat. These measures include the adoption and ratification of related legal documents, prosecution of individuals, suspected to be a part of a terrorism network or activity, the conduct of various law-enforcement activities, increase in training programs for security personnel and the establishment of counter-terrorism centres. (Shadrina (2006), p.3)
In the case of countering terrorism and proliferation of WMS, the US recognized a superb opportunity to insert themselves in the region through offering a helping hand to former Soviet republics, surrounding the Caspian. They have introduced the Second line of defence program and the Caspian Sea Maritime Interdiction, among others. Both programs are mainly focused on uncovering possible illicit trafficking of radioactive material, with the Maritime Interdiction program being focused on the Caspian basin maritime border between Azerbaijan and Kazakhstan. (Al-Rodham (2007), p.32)

Also active on the field of anti-terrorism is the SCO, whose initial purpose was precisely the combating of terrorism in Russia and China alike. In Russia, the issue is especially serious due to the already outlined conflicts in Chechnya and the Republic of Dagestan. All other Caspian littoral states, that still have a vivid memory on the support some of their citizens displayed for the Taliban in Afghanistan, are now witnessing a rise in support for the ISIS movement in the Middle East, especially in Kazakhstan and Turkmenistan.

Combating the threat of terrorism has also resulted in the militarization of the area surrounding the Caspian basin. This can be considered as a dangerous development, since the accessible weaponry and military force makes it all the more easier to shift from diplomatic measures to military one in a region that is already battered by many other serious security considerations.

**DRUG TRAFFICKING**

The region has witnessed a substantial increase of illicit drug trafficking from Afghanistan after the invasion of the US-led coalition force. To this day, it still represents a major destabilizing factor, as the Caspian countries continue to be a pivotal transit route for European and Asian markets alike. To combat the grave issue, there has been a vivid cooperation among all the Caspian littoral countries. A major step forward was the decision of the Caspian littoral and other Central Asian states, to establish a Central Asia Regional Information and Coordination centre in the city of Almaty, Kazakhstan. The centre is also supported by the UN Office on Drugs and Crime. (Shadrina (2006), p.5)
ENVIRONMENTAL SECURITY

In any region in the world, rich in natural resources, environmental concern is of secondary meaning and the same goes for the Caspian basin. The mere process of exploitation and the amount of profit that is channelling from every possible aspect of this industry are making it practically impossible to generate any significant difference when it comes to preserving the environment. The pollution of the Caspian waters and the imbalances in the ecosystem are already visible, but for the foreseeable future it is hard to expect things to be divergent in any aspect. Considering these major and powerful interests at play, we also have to mention the widespread corruption in the governmental apparatus of the countries in question, which makes the task of environmental protection even harder.

Unfortunately, the world has yet to witness the proper balancing between exploitation of natural resources and preserving the surrounding natural environment. And along with the world, so does the Caspian.
Table 1: Major treaties concluded between the Russian Empire (later Soviet Union) and Persia (later Iran) prior to 1991

**Treaty of Resht** | 13 February 1729 | This first Russo-Persian treaty regarding the Caspian Sea established freedom of commerce and navigation for both parties and regulated the cession of certain Persian territories to Russia.

**Treaty of Gulistan** | 12 October 1813 | Bringing the first Russo-Persian War (1804-13) to an end, this settlement granted equal navigation rights to the commercial fleet of both states while reserving exclusive military navigation rights to Russia.

**Treaty of Turkomanchai** | 22 February 1828 | After the second Russo-Persian War (1826-28), the Treaty of Gulistan was superseded by this agreement. Essentially, it reiterated Russia's exclusive right of military navigation on the Caspian Sea.

**Treaty of Friendship** | 26 February 1921 | Following the emergence of the Soviet Union, the 1921 Treaty of Friendship became the new basis for bilateral relations with Persia (called Iran since 1935). By declaring all previous agreements null and void, the Russian domination on the Caspian Sea was lifted (at least on the paper) and Persia's equal rights of navigation, both for military and commercial purposes, restored. The issue of delimitation of sovereignty was not addressed, yet it proposed the establishment of a special commission for that matter.

**Non-Aggression and Neutrality pact** | 1927 | Both sides agreed not to get involved in any political alliances that might threaten the security of the Caspian Sea.

**Treaty of Establishment, Commerce and Navigation** | 27 August 1935 | Besides reiterated key provisions from previous agreements (freedom of navigation, exclusion from third states), this treaty established a ten-mile national zone in which the states were granted exclusive fishing rights. Beyond this limit, freedom of fishing prevailed.

**Treaty of Commerce and Navigation** | 25 March 1940 | Replacing the preceding agreement, the 1940 Treaty of Commerce and Friendship confirmed the principle of flag equality and free transportation, the exclusion of third-state citizens, and the existence of the 10-mile national fishing zone along the Caspian Sea. Also mentioned are marine scientific research, oil and gas exploitation and drilling in the areas near the coastline mentioned, but in a very unclear way. There was also no delimitation line established; the Caspian is regarded as Soviet and Iranian Sea.

**Treaty on border regime** | 14 May 1957 | This treaty served to establish the mechanisms for reconciling border conflicts and to specify land borders. As in all previous cases, though, the delimitation of sea boundary was not addressed.

**Aerial Agreement** | 1964 | Apart from creating a flight information zone, this document made reference to a sea border line that connected the soil on both sides from Astara to the port of Husseingholi.

Innumerable negotiation rounds have been held in order to determine the legal framework applicable to the Caspian Sea. Affecting both the development and ownership rights for gas deposits, the implications reach to topics such as environmental protection, navigation of the waters and fishing.

**HISTORICAL DEVELOPMENTS PRIOR TO 1991**

The year 1991 does not only represent a key date in world history, but it also left a deep imprint on the Caspian Basin. After all, the number of riparian states increased from two to five, virtually overnight, following the disappearance of the Soviet Union as a single subject of international law.

The first sources addressing the legal status of the Caspian Sea date back to the 18th and 19th century, when first treaties between Russia and Persia were concluded, de facto establishing the beginning on Russian geopolitical supremacy in the Caspian region. (Raczka (2000), pp. 201-2)

With the creation of the Soviet Union, a new legal framework, the Treaty of Friendship was negotiated in 1921, declaring all previous agreements void. (Mehdiyoun (2000), n.p.a.) Following Treaties of Establishment, Commerce and Navigation (1935) on the one hand, the Treaty of Commerce and Navigation (1940), the Treaty on border regime (1957) and the subsequent Aerial Agreement, the initial obligations of 1921 treaty were further reiterated, additionally, establishing consensus over matters previously not covered.

However, with the collapse of Soviet Union, the legal validity of the existing legal framework prior to 1991 became seriously challenged and to great extent even obsolete, no longer reflecting the realities within the region[19].

**STATUS-RELATED DISPUTES**
would bring forth the application of the 1982 United Nation Convention on the Law of the Sea (UNCLOS). Following this action, the Caspian Sea would be divided in respective corridors, determining the applicable rights and obligations both for littoral states and the third parties. (Janis (2003), pp. 220-2). That would in effect mean the division of the Caspian into:

1.) Territorial waters, stretching 12 nautical miles from the shore;
2.) Between 200-350 nautical miles of continental shelf (depending on the configuration of the continental margin);
3.) Exclusive economic zones, that extend from the edge of the territorial sea waters up to no more than 200 nautical miles (230 miles) into the open sea[20].

That being said, the Caspian basin has become the stage of a unique multinational mixture of economic, political, energy and environmental concerns, where the division in any way has, for now, proven to not balance properly between the areal (the sole share of the Caspian) and utility (economic) claims of the parties in conflict. But since the exploitation of the resources, hidden in the Caspian, became an urgent reality in the 2000s, the states chose to distance themselves from the international regime and seek other effective solutions under which they can divide their respective energy reserves. Nevertheless, the lack of usage of international law also inevitably means more manoeuvring space for power play and self-interest. (Zimnitskaya and Von Geldern (2010), p. 2)

PRESENT LEGAL OPTIONS AND THEIR IMPLICATIONS

Following the increase in number of Caspian littoral states, calls for the alternative legal options were made, most importantly either determining the legal status of Caspian Sea or insisting on the condominium approach. Classifying the Caspian Sea as “sea”, would bring forth the application of the 1982 United Nation Convention on the Law of the Sea (UNCLOS). Following this action, the Caspian Sea would be divided in respective corridors, determining the applicable rights and obligations both for littoral states and the third parties. (Janis (2003), pp. 220-2). That would in effect mean the division of the Caspian into:

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This division, considering the fact that the Caspian width does not extend 435 miles, would necessarily mean the overlap of different state economic zones and continental shelves, giving way to inter-state bargaining. Even according to UNCLOS, in this case, the “delimitation of the continental shelf...shall be effected by an agreement on the basis of international law...in order to achieve an equitable solution”.

[19] Iran has repeatedly rejected the view that with the dissolution of the Soviet Union, the legal vacuum has been created in the Caspian. Instead, it has emphasized on more than one occasion that the newly independent states are subject to the old Soviet treaties according to the Vienna Convention on Succession of States in respect to Treaties. This view has been strongly denied by Azerbaijan, Kazakhstan and Turkmenistan. Iran has later on, in accordance to the old Soviet-Iran treaties’ substance (rights, given to then Persia, were undeniably greater than what Iran has today: Caspian was closed to all vessels but Soviet and Iranian and the latter countries exercised full sovereignty on their half of the basin), strictly followed the imperative that Caspian is a lake; mainly because that gives him much more sovereign power over the Caspian resources and also eliminates the danger of American vessels in the Caspian, that could gain rights for presence with the application of UNCLOS.

[20] Within this area, the coastal state has exclusive exploitation rights over all natural resources. While territorial waters grant full state sovereignty, the exclusive economic zones grant sovereign rights to exploit resources to a certain state, but not the sovereignty over the waters of the EEC.
And in this process, the most powerful states in the area would have the biggest upper-hand in the bargaining. Nevertheless, considering that UNCLOS has been accepted and ratified[21] only by Russia[22], the complexity of defining the status of Don-Volga system and the incompleteness of the solution in UNCLOS offered for Caspian, the UNCLOS rather serves as a point for guidance.

On the opposite, classification of the Caspian Sea as “lake” is complicated both by the absence of international convention on the issue and the lack of international practise, even if covered by customary law. (Dekmejian et al. (2001), p. 22) We can add that the most common practise on the matter is the division of the water plateau into equal areal portions, inside which states exercise full sovereignty; in the sovereignty sense, drawing a border on an inner water surface is similar to drawing land borders. In comparison to the solution under the provisions of UNCLOS, that means the division of national sectors under this principle would grant the states greater degree of control than those applied under UNCLOS (ibid) and therefore no room for political bargaining.

This also leaves the door closed for the international community, and with that foreign trade and military presence, along with large petroleum companies.

Last discussed option, the condominium status, which is defined as conjoint ownership over a territory, is usually seen to be of temporary nature and as a last resort, when other forms of negotiating a border agreement fail. This solution for the Caspian was initially urged by Russia and Iran, which was not adequate enough to be the final solution for the division of the Basin, as the establishment of such practice would require explicit consent of all littoral states. (Raczka (2000), pp. 209-10) The newcomers to the Caspian club, Azerbaijan, Turkmenistan and Kazakhstan, which all have relatively long Caspian coastal lines and are heavily dependent on the Caspian energy resources, have been advocating strongly against the idea[23] and today, the condominium option seems least plausible of all.

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[21] The UNCLOS provisions are also strongly supported by Azerbaijan; the division of the water and seabed into national sectors, roughly proportional to each state’s entitled coastline, would grant Azerbaijan with the 20.7% of the Caspian.

[22] At this point, we have to add that Russia did not except »the procedures…entailing binding decisions with respect to disputes….relating to sea boundary delimitations, or those involving historic bays or titles; disputes concerning military activities by government vessels and aircrafts, and disputes concerning law- enforcement activities in regard to the exercise of sovereign rights or jurisdiction…« This was done to prevent any international judicial or arbitral jurisdiction over territorial disputes and to preserve their sovereign power to create admiralty law, either via domestic legislation or bi- and multilateral treaties with other Caspian countries. Iran has expressed similar impediments upon signing the treaty (the treaty has not yet been ratified since).
PRINCIPLES OF DELIMITATION

With regards to legal dispute, the decision on negotiating their respective borders remained to the five riparian states. Bearing in mind the value of hydrocarbon resources hidden, each party set to maximize their respective share in the body of water. (Diba (2006), pp. 46-7) Proposals on the division of Caspian Sea into the equal states or referring to the pre-1991 practice of 1964 agreement with Iran were largely contested. The most favourable method resulted in the division of the Sea according to modified median line trend, taking into account the geographical peculiarities. The latter was later successfully integrated into various agreements among the littoral states. (Lee (2005), p. 44-5) 

PRESENT AND FUTURE OUTLOOK

As of the new millennium, the already mentioned important shift took place in the legal division of the Caspian Basin. The northern part of the seabed was de facto divided between Russia, Azerbaijan and Kazakhstan in 2003; however it is unclear whether Iran and Turkmenistan will compromise on the issue.

Considering the frequent border disputes, namely between Azerbaijan and Iran in the recent past and the absence of de jure division of the Basin, the situation needs unanimous settlement in order to avoid future conflicts and to attract foreign investment. One of the most publicized trans-Caspian initiatives, the 23rd meeting of the Special Working Group on the Caspian Sea in 2008 and the “Caspian 5” Summit in 2010, both held in Baku, have in contrary to public expectations not yet delivered a feasible solution. On the occasion of the November 2010 summit, an agreement on the security issues was signed however, the issue of legal status of the Caspian was once again postponed for a decision in the future.

The 2010 Baku summit reflected the current status quo – rather focusing on the pipeline developments such as Nabucco, Trans-Caspian initiatives and the future possible revenues, the 5 littoral states have left the issue of unsolved status and resource issues of Caspian out of scope. (Amineh and Guang 2012, p.58)

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**TABLE 2: KEY DATA REGARDING THE DIVISION OF THE CASPIAN BASIN**

<table>
<thead>
<tr>
<th>RIPARIAN STATE</th>
<th>COAST LENGHT</th>
<th>SHARE OF COASTLINE [ADJUSTED]</th>
<th>SHARE OF WATER SURFACE</th>
<th>SHARE OF WATER BODY [ADJUSTED]</th>
</tr>
</thead>
<tbody>
<tr>
<td>Azerbaijan</td>
<td>800 km</td>
<td>15,2%</td>
<td>78.000 km²</td>
<td>21.0%</td>
</tr>
<tr>
<td>Iran</td>
<td>900 km</td>
<td>18,7%</td>
<td>44.000 km²</td>
<td>13,6%</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>2,000 km</td>
<td>30,8%</td>
<td>113.000 km²</td>
<td>28,4%</td>
</tr>
<tr>
<td>Russia</td>
<td>1,100 km</td>
<td>18,5%</td>
<td>65.000 km²</td>
<td>19,0%</td>
</tr>
<tr>
<td>Turkmenistan</td>
<td>1,700km2</td>
<td>16,8%</td>
<td>80.000 km²</td>
<td>18,0%</td>
</tr>
</tbody>
</table>
THE CASPIAN SUMMIT 2014

It took the world by surprise when, by the end of September, 2014, the latest in the string of meetings on the status of the Caspian Sea actually showed results. The five rulers of the Caspian littoral states declared the Caspian a “Sea of peace and friendship” (Belinksi, 2014), but with a special clause assuring the inadmissibility of any foreign military presence in the Caspian, therefore ruling out any possible future deployment of NATO forces. The decision that no NATO flag will ever be hoisted above the Caspian waters was accompanied by Iran’s President Rouhani’s words: “There is consensus among all the Caspian Sea littoral states that they are capable of maintaining the security of the Caspian Sea and military forces of no foreign country must enter the sea” (Dettoni, 2014, n.p.a.).

Clearly, this is an important geostrategic victory for Russia and Iran, for it comes at a fragile time for both countries in question; the civil war in Ukraine has severely damaged Russia’s relations with the west, and Iran is still in the midst of very harsh sanctions due to the nuclear programme. The agreed upon subject matter of the declaration also revealed perhaps an even greater achievement, clear delimitation formulation for the Caspian Sea seabed which entitles each littoral state to a 15 miles stretch of sovereign rights over the seabed. The latter therefore concludes the legal feud, extending from the early days of the breakup of the Soviet Union, giving each state a green light to exploit what some analysts believe are the second largest reserves of oil and gas on the planet. The statement of these principles has been agreed upon and the real deal is supposedly to be signed by the end of the year 2015 in Kazakhstan. And unmistakably, this will be the single most important regional development that occurred in the last 25 years.

Other important sidekicks to the agreement include:

- railroad infrastructure plan to encircle the Caspian and interconnect all the major ports, consequently cutting the transformation time in half
- emergency prevention and response agreement, highlighting the future joint efforts in responding to emergencies in the Caspian, with scheduled joint exercises of response units of all the five littoral states in 2016, designed to test capabilities, level and nature of cooperation between the nations (Belinksi, 2014).

[23] The defiance is reasonable, since Russia and Iran would gain the most with this solution considering that both already have vast natural resources elsewhere in addition to Iran exercises sovereignty only on a fairly small portion of the Caspian coastline. After Russia’s change of hearts regarding condominium issue, due to attempts to improve the relationship with Azerbaijan and Kazakhstan, Iran was left without an ally. Keeping this in mind, Iran opted for strongly supporting the “lake” solution, because like the condominium one, it still rewards Iran with a considerable portion of the Caspian.
In the context of the region, the previously outlined territorial, ethnic and status-related issues pose a significant political risk both to the countries and foreign investors alike. In the OECD risk rating, ranging from 0 (very low risk) to 7 (very high risk), all the Caspian littoral states rank as rather high-risk environments, which can mainly be explained by inefficient governing and lack of strong institutions. (OECD) Furthermore, the perceivably high corruption ranking by the Corruption Perception Index (CPI), published by the Berlin-based NGO Transparency International (TI), further evidences this particular problem, mentioned in previous chapters. With regards to economic risks, the Dutch Disease, the uneven distribution of wealth and increasing unemployment pose a significant threat to the economic stability of the region. The rankings of states by the WB Ease of Doing Business Index, Economic Freedom of the World Index and the Global Competitiveness Index reflect the lack of economic freedom, due to the arbitrariness of the national systems. Last, from the legal perspective, the unresolved status of the Caspian Sea, still contributes to main risk factor for both local and foreign businesses and stakeholders. Equally important to mention, however, are the arbitrary and unpredictable acts in administrative tasks, both for taxes, licences and existing contracts. (WB (2006), p. 6) On the positive note, the use of Production Sharing Agreements (PSA), whereby “the State awards an investor the exclusive right to search, prospect and extract resources for defined period of time”, has proven to ease the unstable legal environment. (Akiner (2004), p. 149).
The key aspects of energy security are manifold. The ability to buy at a relatively stable and reasonable price, thus eliminating the destabilizing effects of price volatility is without a doubt one of the key challenges of energy security. The reliability of supplies is another pivotal issue and is comprised of efforts to prevent any disruptions for various reasons, for example embargos, civil unrests, acts of terror, technological malfunctions etc. With reliable supply in mind, one of the key things is also the diversification of supplies, for over-dependency on only one supplier poses a significantly larger additional risk of political and economic leverage being extorter on the consumer nation. Diversification of supplies is greatly intertwined with the effective diplomacy and attaining of foreign policy goals.

Least but most certainly not least is the strategic importance of transport routes, mainly through a well developed network of pipelines. Regular maintenance, extensions, research and development activities, innovation and environmental considerations are therefore additional key challenges in the quest for energy security.

The security of demand is also a crucial factor, emphasizing a stable market and close commercial ties among suppliers and customers. The best approach to energy security is therefore a comprehensive and cooperative framework for balancing and attaining the interests of both producing and consuming parties (Amineh/Houweling (2007), p. 375). The Caspian energy reserves, concentrated mostly in Azerbaijan, Kazakhstan and Turkmenistan can contrary to earlier beliefs merely act as a diversification in the world market.
In 2012, relative to the world, the Caspian share constituted 3.4% of global oil production and 20% of total world gas production (Table 3 and 4). However with the increase of Azeri and Kazakh oil production and Azeri gas production, the latter two will increase their importance in the export markets.

Due to the landlocked nature of the Caspian Basin, the NISs are dependent on at least one adjacent country in order to be able to export oil and gas. Traditionally, the infrastructure has been dominated by Russian state-owned pipeline monopolist however, this was contradicting the needs of the NIS, who seek independence for implementing their energy deals. (Goldwin/Kalicki (2005), pp. 150-1) The figure 4 demonstrates pipelines not controlled by Russia—most notably, the Baku-Tbilisi-Ceyhan (BTC) oil pipeline and the parallel gas counterpart South Caucasus Pipeline (SCP, also known as BTE-Baku-Tbilisi-Erzurum), are of great importance.

Upon opening the BTC pipeline, it was regarded as the largest exporting pipeline in the world, spanning over 1040 miles of terrain. The building trajectory represents the more environmentally harmful and construction-wise more difficult terrain, for it had to avoid Russian territory altogether.

But consequently, the infrastructure itself is regarded as unique for the connection of the landlocked Caspian with the Mediterranean waters, hence of utmost importance for Europe’s desire to diversify the energy supply; not to forget that with the BTC[24], Europe gained access to the very heart of Central Eurasia. This strategic economic cooperation also explains why partnership with NATO and EU is one of highest priorities for the newly independent Soviet republics on the one hand, and also for the North-Atlantic alliance and the EU itself on the other. (Zimnitskaya and Von Geldern (2010), p. 11) Not surprising, when regarding the future, the plans for westward extension of SCP to Central Europe[25] and construction of trans-Caspian oil and/or gas pipeline, transporting the Kazakh and/or Turkmen reserves via the BTC and SCP are of great interest for the West, mostly the EU. (Crandall (2006), pp. 39-40)

Last, due to the heavy reliance on oil and gas sector in the respective economies of five Caspian states, prudent administration is of utmost importance. Especially in the case of Azerbaijan and Kazakhstan, there is high risk for falling to Dutch Disease[26]. Stabilisation oil funds, set in those countries, were introduced in order to help save the profit and for proper use of gained income[27].
TABLE 3: PROVEN CASPIAN OIL RESERVES (IN BILLION BARRELS)

<table>
<thead>
<tr>
<th>Littoral State</th>
<th>At the end 1999</th>
<th>At the end 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Azerbaijan</td>
<td>1.2</td>
<td>8.5</td>
</tr>
<tr>
<td>Turkmenistan</td>
<td>0.5</td>
<td>1.9</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>25.0</td>
<td>31.2</td>
</tr>
<tr>
<td>Total</td>
<td>26.7 bnb</td>
<td>41.6 bnb</td>
</tr>
<tr>
<td>Total World</td>
<td>1085.6</td>
<td>1650.1</td>
</tr>
<tr>
<td>% of the world reserves</td>
<td>2.45%</td>
<td>2.52%</td>
</tr>
</tbody>
</table>

Source: EIA

TABLE 4: PROVEN CASPIAN NATURAL GAS RESERVES (IN TRILLION CUBIC METERS)

<table>
<thead>
<tr>
<th>Littoral State</th>
<th>At the end 1999</th>
<th>At the end 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Azerbaijan</td>
<td>1.23</td>
<td>1.31</td>
</tr>
<tr>
<td>Turkmenistan</td>
<td>2.59</td>
<td>10</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>1.78</td>
<td>1.95</td>
</tr>
<tr>
<td>Total</td>
<td>5.6</td>
<td>13.26</td>
</tr>
<tr>
<td>Total World</td>
<td>148.55</td>
<td>201.079</td>
</tr>
<tr>
<td>% of the world reserves</td>
<td>3.77%</td>
<td>6.59%</td>
</tr>
</tbody>
</table>

Source: OPEC

FIGURE 5: CASPIAN PIPELINES NOT UNDER RUSSIAN CONTROL

Both solutions have been liable to waves of criticism; the IGA due to the above mentioned lack of prudent administration and corrupt governments, and the HGA because of tendency to taking precedence over domestic legislation, thus allowing the oil interests surpassing standard legislative regimes on oil and gas exploitation and environmental protection. HGAs are part of international investments agreements under international law, usually of extremely volatile nature; it is standard procedure to include a clause, stating that the agreed upon standards are not static but will evolve over time. This essentially allows oil interests to surpass standard legislative regimes on oil and gas exploitation and environmental protection. However, due to complexity and varying political will, these funds often fail to achieve their goal. (Crandall (2006), p. 53)

One must also bear in mind that when it comes to these large, super-projects, the issue tends to lie with the absence of proper regulations over these constructions. There are two ways for managing such regulations: Inter-Governmental Agreement between the countries directly involved or a series of Host Government Agreements between the states in question and the corporations –led consortium (originally meant for reducing the risks of investing into unstable regions and avoiding the incompetency, inefficiency or corruption of local governments).

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[24] Although, all this elaborate energy planning on the western side may quickly turn sour, since Azerbaijan and Russia are discussing the option of pumping Russian oil into the pipeline.

[25] Which were already shattered with the death of the Nabucco pipeline project in 2014.
PIPELINE STRATEGIES

When it comes to considering transnational pipeline projects, there are four paramount factors to be reckoned with. Their interplay is usually what facilitates or hinders planning, construction, operation and therefore accounts for eventual demise of oil and gas international pipeline projects.

The physics of fuel transport
The first and most difficult to work around are the mere physics of fuel transport. Primarily, synchronizing the anticipated and realistic volumes of production, available capacity of transmission with the future level of market demand is, when it comes to pure mechanics of it, a task reserved for engineers. Not to forget, of course, the political and economic drivers behind each pipeline decision. The physics of fuel transport therefore assist us in recognizing what is possible to do with regards to each respective pipeline plan and how can the plan to be executed correctly and effectively. In this regard, an important subject to be acquainted with are the trade-offs between transportation by tankers versus the pipeline transmission. When it comes to short distances, it is usually more economical to transport energy reserves by high-pressure pipeline than transport them liquefied in a refrigerated taker ships.

But when it comes to crude oil, approximately 60% of all transits are made with the utilization of tanker ships. Also worth considering is that gas carries less energy per unit volume than other hydrocarbon reserves, which makes gas pipelines a less lucrative to operate. Finally, contemplating on safety hazards, natural gas is a more dangerous fuel to transport and the whole construction must therefore adhere to much higher safety standards, making it a more costly business. Accordingly, the physics of fuel transport help us also in defining the costs, benefits and efficiencies of different competing transport systems (Kandiyoti (2012), p. xxx).

Fuel demand
The fuel demand can be recognized as the most important factor, affecting the transmission chain. During these last couple of decades, the demand for oil has grown steadily, but surely. When considering the demand in correlation to the pipeline systems, we have to consider extension to existing projects, building new pipelines and the consequences of regional demand shifts. With this in mind, we can add that some already extensive pipeline networks have the ability to match supply to geographically shifting demand, clearly shown when thinking about the Soviet pipeline system.

But not oil but gas demand has lately been the main driver behind the sprout of many new projects, not only because of the rise in customer’s demand but because of the reconsideration about costly transport liquefied natural gas in ship tankers. The latter has shifted much of the world’s attention to creating new of expanding old gas pipeline systems (Kandiyoti (2012), p. xxx).
Geopolitical bottlenecks
Many of the issues behind pipeline planning and execution of plans lies in the geopolitical calculations, involved in each of the respective projects. While the whole of the energy transmission projects might be originally driven by the demands and guided according to the laws of physics, they are ultimately determined within the geopolitical context. Political and economic reasons and gains, behind every major new pipeline consideration, are precisely what makes or breaks each pipeline project.

The epochal change
Radical and groundbreaking changes in the international community are also one of the hallmarks of altering geopolitical reality taking place, affecting everything else on the line. And the latest such epochal change occurred with the fall of the Soviet Union, drastically changing relations between Europe and Central Asia. Accordingly, this also has a profound impact on an important sidekick to these new realities, energy transportation from an energy rich Central Asia to energy hungry Europe.

Competing interests and scope of influences began in the former Soviet Republics, the newcomers to the energy rich Caspian club. The struggle for dominance and competing strategies linger on to this day and it is not highly likely that this will ever change (Kandiyoti (2012), p. xxxii).

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[26] Dutch disease is an over dependence on natural resources, consequently resulting in failure to effectively develop other sectors of the state economy.
[27] In Azerbaijan, the visible effect of these stabilization funds was witnessed in 2012, when growth in the non-oil sector surpassed the growth in the oil sector for the first time (Pivariu (2014), p. 177).
EU-CASPION RELATIONS AND ENERGY SECURITY

EU is evidently a major player on the international energy market, being among the world’s largest importers of oil and gas. Since the local production in the North Sea oil and gas fields has long passed its peak times of production, the reliance on non-EU energy supply will increase even more in the future, therefore it has become indispensable for EU member states to integrate energy aspects into their relations with third countries. An additional layer of complexity has been added by the energy-hungry emerging economies of China and India that are adding pressure to the already questionable guarantees of future energy supply security, because world consumer states are competing for the same pool of resources around the globe.

With the intention to match the current energy policy priorities, the EU has identified the cooperation with Caspian region as one of the means to reach these targets. The general legal framework, except in the case of Iran, governing the political, legal and trade relationships is the Partnership and Cooperation Agreements (PCA). With the main aim of stronger presence within the region, the EU has initiated several collaboration platforms: The Transport Corridor Europe-Caucasus Asia (TRACECA) in 1993, The Interstate Oil and Gas Transport to Europe (INOGETE) in 1995, the Energy Charter Treaty in 1997 and The Baku Initiative in 2004.
However, despite the strong efforts of EU in the region, taking into account the full capacity of the Caspian States to produce energy, the importance of the Caspian reserves should not be overestimated. Even though the export volumes are not at its peak and the strong interests from the NIS states to cooperate with the west are seen as positive, the potential access to the reserves should be seen rather as a step towards greater diversification. Even though production as well as export volumes is expected to increase noticeably, the Caspian Sea region cannot yet compete to or substitute for other key energy producers like the Middle east. Adding to the pile of issues is the landlocked nature of the Caspian basin, which in turn creates fairly high production and transportation costs and consequently puts local gas and oil supply at a disadvantage when compared to other sources.
But taking into consideration Europe’s high dependency on Russia as a main energy supplier, the Caspian Basin resources could in retrospect make a vital contribution to the EU energy security. With diversifying its energy supply and infrastructure portfolio, EU would benefit with a much stronger bargaining position towards energy supplier countries and even profit from lower prices Russia would be forces to set to hold the compatible card advantage. But it is very important to understand that the Caspian littoral states and their respective energy supplies cannot constitute for the main source of European energy supply therefore the “Russia factor” should not be the main driving force behind the EU-Caspian relations.

Last, in addition to the EU, the presence of other global players such as Japan, China, the US and Turkey has to be taken into account.

Even though Japan’s position in the region could be seen rather as provider of development aid, and in case of Turkey the relationship is portrayed as both cultural and economic, the presence of US and China is the signal of their growing need for energy in order to satisfy the increasing demand.
FIGURE 8: NABUCCO AND ITS TIMELINE

Source: www.nabucco-pipeline.com

FIGURE 9: PLANNED SOUTH STREAM AND NABUCCO GAS PIPELINES

Source: Flores (2014)
Nabucco was the natural gas pipeline project, envisioned to connect the Caspian resources with the European market and has, in the context of previously stated goals, enjoyed full support by the EU as official means of diversification of energy supply. Stretching from Turkey to Austria, crossing Romania, Bulgaria and Hungary, the initial plan saw provision of natural gas mainly from Azerbaijan, but also Turkmenistan, Iran, Iraq and Egypt. The Nabucco project was therefore, in accordance with the European aspiration, set to transport natural gas to Europe from just about everywhere, expect for Russia. Lead by the Nabucco Gas Pipeline GmbH, the company acted as a Transmission System Operator (TSO), providing technical and logistical infrastructure to the project.

As demonstrated on the Figure 8, the construction phase was supposed to start in 2012 and the estimated start of operations was expected to be due earliest in 2015. Given the maximum capacity of Nabucco, 31 bcm, the project could thus contribute some 4.4% of the total required gas supply.

In the first phase of the project, Azerbaijan agreed to feed the pipeline with 8 bcm of gas (but later on, the government did not increase production in the Shah Deniz gas fields in time to meet the requirements); the second phase was planned to introduce gas from other Central Asian countries, while in the third phase the pipeline would get steady gas inflows from Iran, Iraq, possibly even Egypt. Nevertheless, this over-optimism represented only one layer of the overall issue with the Nabucco pipeline.
Others included the strategic rivalry in Russian proposed South Stream, because the two pipelines targeted same markets and follow extremely similar routes (three out of five countries, envisioned to be along the Nabucco pipeline, are also part of the South Stream proposed pipeline). Additionally, the whole project has been facing criticism from several angles. Considered as unique means for diversifying from Russian market, the project was often cited as being politically motivated (and therefore pushing the commercial value of the project on the side in comparison). In fact, signalling the importance of the project to the EU, Nabucco was given an official exemption from the EU competition rules in 2008.

The financing of the two projects also merits examination because we have to consider that since the Nabucco pipeline was supposed to be privately financed, it had to show commercial value, while Russian Gazprom has never had a problem financing any alternative pipeline in accord with Moscow’s strategic goals. (Marke-tos (2009), p.16-17)

Disregarded in the South Stream planning though was strategic (energy) gaming of the EU. This political bargaining halted the South Stream project and pronounced it dead in late 2014.

The pragmatic reasons for this decision were the continuous obstructions, posed by the Bulgarian government (which many believe were orchestrated and supported from Brussels). Henceforth Russia declared her withdrawal from the South Stream pipeline and immediately started focusing on Chinese markets and securing new deals with Turkey. If EU thought to gain with this move, these recent events show it might be a grand miscalculation. Not surprisingly, the Northern leg of the Russian project, North Stream, which is covering energy needs of Germany and bypassing Ukraine, Poland and the Baltic states, is fully operational.

The latter clearly demonstrates the political wisdom of those leaders, who can still afford to exercise it in the powerplay[28] taking place inside the EU. At this point, we can paraphrase the premise of the “EU of two speeds” and divide the member countries to the ones that can still accept their own strategic decisions and the ones that are left blindly following policies, made in the name of wider interests and/or stronger states.

And as it so happens, the Nabucco pipeline, energy fantasy for many western energy strategists, was also at the mercy of geopolitical pipeline diplomacy.

[28] Powerplay is an expression for the eponymous theory in international relations, elaborating the construction of asymmetric alliances, designed to exert maximum control over the smaller and weaker ally states and their actions. (Cha (2010), p.158)
It received the first damaging blow in 2012, when the proposed pipeline route was reduced for more than half, from the original 3900 miles to 1300 miles, due to the substantial and previously uncalculated for financial costs and shifting governmental support in host countries. This meant that the Eastern section of the pipeline was terminated, making way for the Turkey-Azerbaijani financed Trans-Anatolian pipeline (TANAP). The remaining part was afterwards known as the Nabucco-West. But even this reduction could not save the project that received a lethal blow in June, 2013, when the Azeri Shah Deniz Consortium chose the competing Trans- Adriatic pipeline (TAP) instead. (Fandrich (2013), n.p.a.)

After the decision was made public, the chief executive of the Austrian energy company OMV told the media that the Nabucco pipeline was over for them, effectively ending the rumours that the pipeline is nevertheless still going to be built and ending the dream of many high-level politicians in the EU energy sector. A decade of planning was therefore finished, with very slim chance of ever starting up the project again.

We could say that the Nabucco pipeline ended in a very public divorce between money and strategic convenience.

This course of events and the final decision point out at the unique processes, taking place in the Caspian energy field. It is very hard to argue that the decision to choose TAP (and as a result effectively terminating the Nabucco pipeline), was not strategic and (geo) political. The behind the scenes events taking place were largely connected to the beneficiaries to the fruits of the project, the economic reconsideration and the strategic rapprochement of Russia and Azerbaijan. We have to be clear on the fact that the decision to terminate Nabucco was taken in Baku. Reasons for that are many-fold, mainly:

- The Nabucco pipeline was a joint EU project, while Azerbaijan and Turkey are behind the TAP (and the important midway junction TANAP),
- The route is 500 km shorter than the Nabucco-West and therefore more economical,
- As clearly demonstrated in the figure 7, the pipeline infrastructure will mainly go through Greece (therefore, eliminating the risk of interruptions in the supply chain to practically one country only),
- As a result of the EU austerity measures in Greece, the country was forced to privatise the state owned energy company DEPA and the state gas provider DESFA. Azerbaijani state company SOCAR was the buyer of the Greek DESFA (the strategic implications of the decision for the TAP project are now ever more clear),
- Azerbaijani decision to not sour the relations with Russia,
- The goal of Azerbaijan and Turkey to enhance their role as pivotal energy suppliers for the European markets (Weiss (2013), n.p.a.) (And the irony in this is unmistakable; in the efforts of trying to eliminate the influence of Russia[29] , the EU got tackled by other Caspian states).
WHAT LIES IN THE CASPIAN BEYOND NABUCCO AND SOUTH STREAM

With termination of both Nabucco and the South Stream project, the genie is out of the bottle and the next phase of pipeline gaming in the Caspian has officially begun. Let us look at the perspectives for the future and a number of projects already gaining their momentum in different bureaus in different parts of the world.

SOUTHERN GAS CORRIDOR

Southern Gas Corridor is a pipeline plan, originating in the Azerbaijan’s Shah Deniz-2 gas field and consisting of the Trans-Anatolian Natural Gas Pipeline Project (TANAP), the Trans-Adriatic Natural Gas Pipeline (TAP) and an extension to the South Caucasus Pipeline. The pipeline infrastructure is projected to be 1,850 km long, stretching from Azerbaijan to Turkey and onward to European markets, making it one of the longest pipelines in the world. Idea for this pipeline was first introduced in 2011 at the 3rd Black Sea Energy and Economic Forum and the first Memorandum of understanding was signed between the governments of Azerbaijan and Turkey in 2011 and 2012, while the construction on the Trans-Anatolian Pipeline officially started in March, 2015.

The gas supply to Turkey is scheduled to start in 2018, with the extension to Greece, Albania and Italy via the Trans-Adriatic pipeline, due operational in 2020 (TANAP, 2015). The completion of the Southern Gas Corridor is without a doubt of great interest to the EU and that was repeatedly emphasized by the EU Commission vice-president Šefčovič, in charge for the EU energy agenda. The TANAP under construction and the final section of the Corridor, TAP, partly owned by BP, will receive all the necessary political support and Brussels has already deemed it “the project of common interest” (Oliver, 2015), therefore eligible to bypass all the EU competition restrictions.

It seems evident that the EU has learnt its lesson from the failed Nabucco project and is flexing every muscle and exercising every available connection and wild car to guarantee the necessary support for the project. Why, is not hard to guess. Looking at the map, the Southern Gas Corridor completely bypasses Russia and the infrastructure for the pipeline runs exclusively in “EU friendly” states. Hereupon, we stumble on another proposed integral part of this puzzle, avoiding Russia and its influence to an even greater extent.

[29] Although the TANAP and TAP will to some extent eliminate the dependence on Russian supply for Europe, this effect will not be as substantial as the EU planners envisioned it to be. The capacity of the pipeline of 10 billion cubic meters a year represents a very modest 1% of the total annual European energy demand.

[30] Turkey is a very significant ally for the rest of the parties, supporting the project, since it has very close ties with the regime in Ashgabat and is currently the second most important trading partner for Turkmenistan, closely following China and therefore surpassing even Russia.
The Trans- Caspian pipeline is a planned undersea connection to the Southern Gas Corridor, from the Turkmenistan Caspian coast to Azerbaijan, connecting to the extended South Caucasus Pipeline, TANAP and TAP. Despite all the setbacks surrounding the project, the intense commitment of the interested parties – Turkmenistan, Turkey[30], Azerbaijan and the EU – has recently brought significant success. The first serious hint at the project was outlined by the Turkish president Erdogan in 2011, implying that the gas for the TANAP pipeline will also be secured from Turkmenistan. That could hardly have mean other than the underwater connection between Azerbaijan and Turkmenistan.

At a first glance, that seems to uncover a serious setback for the project: the lack of available Turkmen gas to feed the pipeline. Here is how the East- West pipeline, currently under construction, comes into the picture. Turkmenistan started work on the aforementioned pipeline in 2010 and its original intent was to transport gas from rich gas field in the Eastern part of the country to the West and offer additional gas to the Russian backed Caspian Coastline pipeline.

But recent global political events and occurring on the energy market have had a profound effect on Turkmenistan’s gas production, namely:

- Russian Gazprom has already pulled out significantly from the Turkmenistan gas market (an additional 4 bcm per annum in 2014, according to Natural Gas Europe), creating an abundance of the resource left for other potential end-buyers;
- The Russian u-turn to China and other Asian markets, after the fallout in Ukraine and tense relations with the EU, for China is also the biggest gas end-buyer for Turkmenistan;

- Lifting of the sanctions for Iran, following the agreement on the Iranian nuclear activities, for Iran is increasing its domestic gas production which could introduce Teheran as another of the major world gas suppliers. Not to forget that Iranian authorities have already stated that the only reason they are still pumping Turkmenistan’s gas is to promote the political and economic relations with Turkmenistan, so the regime in Ashgabat cannot hope for the increased demand here, either (Baghirov, 2015).

These global changes, affecting the Turkmenistan’s gas production and its supply chain, represent the last piece to the puzzle, enabling Turkmenistan to guarantee enough gas supply to feed the Trans Caspian pipeline without shortages or interruptions. While the capacity of the proposed Trans-Caspian pipeline is 30 bcm per year, 14 bcm is intended to reach European markets and the rest is for Turkey, signalling her high adherence to the TSP project and the accompanying TANAP. The ratio can of course be subject to change in the future, especially if the EU finds it indispensable in its efforts to diversify from Russian supply and consequently (and presumably) offering a more competitive price than Turkey.
And since the Southern Gas Corridor and the Trans-Caspian Pipeline and interconnected, they feed off each other’s success, thus the implementation of the SGC has consequently accelerated the talks over the Trans-Caspian Pipeline.

TURKISH STREAM
The last interesting project is Russian backed, named Turkish Stream, and it was set up in the aftermath of the South Stream cancellation in 2014. Originally, the agreement was signed between the governments of Turkey and Russia for the pipeline, connecting the two via Black Sea, and onward to the Turkish-Greece border city of Ipsila. Plans are consisting of four pipeline, two to meet the need of the Turkey’s ever growing gas market, with a gas delivery point near the Turkish city of Kıyıköy, and other two serving as an extension to the European markets, surfacing near the city of Ipsala as a delivery point for the European markets. The total capacity of the four strings combined is said to be 63 bcm per annum (Gazprom, 2015).

In February 2015, the two governments started seeing more eye to eye on the proposed land route for the pipeline and the scheduled construction work is set to start as soon as the negotiations are finalized.

Later on, signalling another success for the project, the governments of Turkey, Greece, Hungary, Serbia and F.Y.R. Macedonia signed a Declaration of intent regarding the Turkish Stream, giving the first scoop to the outline and extent of the Turkish Stream Project. Additionally, a more specific agreement on the underwater pipeline was signed between Russia and Greece in June, 2015.

This came at a very sensitive time for both countries, for many analysts believe both are slowly drifting away from the EU, and trying to secure alternative means to tackle domestic economic crisis. According to the agreement, it would set up a joint venture, extending the underwater pipeline from the Turkish city of Ipsila, to Europe through the Greek territory (Deutsche Welle, 2015).

The move can be seen as an attempt to introduce Greece as a major gas transportation hub to Europe, thus creating leverage for the Greek government in its negotiation process with the EU on the economic crisis.

According to the former Greek Prime minister Tsipras, the agreement will “attract new investments to the Greek economy, stabilize the region and set up the path towards improving relations with Ankara” (Middle East News Service, 2015).

While introducing Greece as an important transport bridge between Turkey and Europe, the Turkish Stream, as the name implies, mostly affects the role Turkey plays in the energy diplomacy. As stated before, Turkey has been trying for quite some time now to capitalize on its geographic setting and cordial relationship with Europe as well as Central Asia and Iran.
Turkish Stream is the realization of these aspirations, for it will transform Turkey from a transit country into one of the most important European gas suppliers. Judging from the analysis on all three most viable options for the newest gas pipelines in the Caspian, it seems that Turkey will benefit the most, being a part of all the plans involved.

Apart from Turkey, the Turkish Stream will also allow additional leverage for Russia’s Gazprom and its supply chain to the European markets, for it allows to completely bypass Ukraine therefore making the former crucial country redundant in the Russian gas plans, which of course priceless for Russia at the moment.

CONCLUSION

As witnessed, the Caspian Basin has re-emerged to the centre of global attention. This conversion is referred to as the “New Great Game”, implying that a new form of race has started for the access of Caspian resources. Along with the increased competition, the position of newly independent Caspian littoral states, Kazakhstan, Azerbaijan and Turkmenistan has dramatically changed.

Possessing the influential power over their respective reserves now, the three states also have to compromise with various external parties for the access to energy transit routes, know-how and capital. Additionally, we must not neglect the impacts of the current Ukrainian crisis, giving way for wave of instability right on the borders of the Caspian region.

With regards to regional disputes, the implications of elaborated issues are manifold. Momentarily, the biggest cause of worry is the above mentioned situation in Ukraine. It is unclear to which point can the hostilities further deteriorate and henceforth impact the stability of the already sporadically turmoil Caspian. Additionally, other itemized ethnic and territorial disputes also have adverse impact on both the energy supply potential and the business environment in general. Complex conflicts between various ethnic groups within the region and numerous secessionist movements might lead to chain reaction or domino effect. Not to forget the Northern Caucasus and Nagorno-Karabakh regions, recently rated as dangerous conflict areas, where circumstances might unfold to carry devastating regional consequences.
The recently reached sui generis legal status of the Caspian Sea is a signal of improvement and a messenger of the, so the authors believe, greatest regional event in the last two decades. Since some sort of specific legal status has been promoted as the only viable approach for years, it is assuring to know it has finally been capitalized.

As identified earlier, Caspian Basin has also emerged as key area of European interest, with clear focus on energy supplies and ultimate goal of diversifying the supply chain. With regards to these goals however, the initial EU approach could be criticized for being too fragmented. Unable to often speak with a common voice on energy related issues this global player, in terms of increased cooperation initiatives, stays far behind from the successful actions of Russia.

And even with politically heavily supported projects like the elaborated Nabucco, EU has recently failed again in achieving the desired goals because it over-estimated its influence in the region. In the lessons learnt from this experience it should be evident that, although trying to escape Russia’s strategic grip, other Caspian littoral states are also striving for their own economic power and independence. They might not want to stumble from one strategic umbrella to another, but instead make a solid position for their own voice in the future of energy matters in the Caspian.

This has clearly been the case in the aftermath of the Nabucco and South Stream failure, accompanied with the agreement on the delimitation of the Caspian Sea, rewarding each littoral state to sovereign rights, stretching over 15 miles off the Caspian shores. This will of course give new life to projects involving the Caspian basin reserves, including the Trans-Caspian Pipeline which has been in talks for years, and other relevant pipeline projects.

What is interesting though is that many analysts were quite stunned when Russia agreed on the delimitations for the Caspian Sea, because the latter will inevitably result in alternative pipeline projects, excluding its territory: something Russia has been fighting against for decades now, for it would significantly decrease its strategic influence and economic benefits in the region for the reasons already thoroughly discussed.

So, why did Moscow agreed to something so potentially harmful as the delimitation formulations and henceforth, alternative pipeline projects of the newcomers to the Caspian club?
Some believe the answer is pretty simple: to offer a very delicious carrot to the new republics, therefore avoiding a scenario, unfolding in Ukraine and preventing their further drift towards the West. And since pipelines cannot get build over night, this gives Moscow a fair amount of time to consider the odds in each respective pipeline case. Or maybe, adding an array of colours to the previously black and white relationships in the Caspian, Moscow is prepare to grant the Caspian states more independence, in order to proceed with good relations that can also bring forth great benefits in the future, especially considering global shift towards multipolarity.

Since the introduced pipeline projects again target much the same markets, it is questionable if they are all fated to succeed; many fear that especially in the case of TANAP and Turkish Stream, one will become redundant and might signalize too great of an appetite of Turkey to become a significant energy hub between Central Asia and Europe.

To conclude, it is likely that political motivations in the regional pipeline diplomacy will become ever more crucial due to the deteriorating relations between the two important players in the Caspian, Russia and EU. With the introduced highly explosive mixture of political and energy factors, we might see new life springing in the process of alliance making and geopolitical bargaining. In this cluster of interests, optimistic at heart can hope that careful fine-tuning is going to be the main strategic focus for all the players involved. But for realists, it might be of concern that balancing numerous grand interests can raise the stakes incredibly high, especially when they are intersecting on such a limited space.

Events, evolving from here on, are still open for speculation.
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CASPIAN DECLARATION
16 OCTOBER 2007

The declaration of the Republic of Azerbaijan, the Islamic Republic of Iran, the Republic of Kazakhstan, the Russian Federation and Turkmenistan; The presidents of the Republic of Azerbaijan, the Islamic Republic of Iran, Kazakhstan, the Russian Federation and Turkmenistan - on behalf of their countries - will hereafter be called the parties:

Supporting the initiative of the President of Iran, Mr Mahmud Ahmadinezhad, to hold the second meeting of presidents of the Caspian littoral states, having discussed on 16 October in Tehran in a constructive atmosphere of mutual understanding topical international and regional problems of mutual interest, the state and prospects of multilateral cooperation, and issues related to the conduct of work on defining the legal status of the Caspian Sea,

Believing that the development of cooperation of the five Caspian littoral states based on friendship and good-neighbourliness meets the fundamental interests of their peoples, and is an important factor in guaranteeing regional security,

Based on the common aspiration of the five states to reinforce friendship and mutual trust, to decide all questions in a spirit of equal rights and mutually beneficial partnership taking into account their interests,

Considering the changes and processes at the geopolitical and national levels that are taking place in the Caspian Sea region, the existing agreements between the five Caspian littoral states, and in this regard, the need to develop the legal regime of the Caspian Sea and to pass soon the convention on the legal status of the Caspian Sea to these ends,

Striving to create favourable conditions to guarantee the sovereign rights of the Caspian littoral states on the Caspian Sea and regulate in a spirit of mutual understanding and cooperation issues related to the legal status of the Caspian Sea and the use of its resources,

Considering the readiness to support regular contact between the heads of the Caspian littoral states, including in the five-party format, and exchange opinions on the most important bilateral, regional and international problems,
Confirming a commitment to the aims and principles of the UN Charter, the generally accepted norms of international law, including a respect for the sovereignty, independence, territorial integrity and sovereign equality of states, the non-use of force or the threat of its use, they declare the following:

1. The parties will in every possible way work to make the Caspian region a region of peace and stability, stable economic growth and prosperity, good-neighbourliness and international cooperation of the littoral states based on equal rights. They are fully determined to work closely with one another on multilateral and bilateral bases in the political, diplomatic, trade, economic, scientific and technical, cultural and humanitarian and other areas.

2. The parties support holding on a regular basis, subject to agreement by the parties, meetings of the heads of the Caspian littoral states, and in the period between them, holding meetings of foreign ministers and authorized experts of the parties to consider the whole range of issues relating to the Caspian Sea.

3. In striving to use the rich potential of the Caspian region efficiently, and taking into account the favourable prospects for its development, the parties will enhance dialogue and cooperation in the economic sphere, especially in the energy and transport sectors.

4. The parties will contribute to the efficient use of the transport potential of the region, including by forming and developing international transport corridors.

5. The parties state that only the littoral states have sovereign rights as regards the Caspian Sea and its resources.

6. The parties confirm that the comprehensive legal status of the Caspian Sea will be defined by a convention on the legal status of the Caspian Sea as a basic document which can be adopted only on the basis of common consent of the littoral states.

7. The parties agree that before the new legal status of the Caspian Sea is defined, the regimes of navigation, fishing and seafaring exclusively under the national flags of the Caspian littoral states that were agreed on the basis of implementing their sovereign rights should apply in this zone.

8. The parties declare that the development of a comprehensive legal status of the Caspian Sea and the adoption - as soon as possible - of the convention on the legal status of the Caspian Sea for this purpose is the most important task. The convention, as the basic document on the legal status of the Caspian Sea, should govern the issues of the implementation of the jurisdiction of the Caspian littoral states on the basis of respecting their sovereign rights in the Caspian Sea, and should include the principles and norms regulating environmental protection and rational use of natural resources, including the use of the bio-resources of the Caspian Sea and the mineral resources of its seabed and subsoil resources, navigation and also other issues related to operations in the Caspian Sea.

9. The parties declare that the final agreement by all the Caspian littoral states on issues related to the delimitation of the Caspian seabed for purposes of the use of resources will be carried out taking into account their sovereign rights and respecting each others' lawful interests.

10. The parties have agreed to continue agreeing the issue of establishing zones of agreed width and water area in the Caspian Sea as well as the corresponding legal regimes.

11. Recognizing their responsibility to the present and future generations for the preservation of the Caspian Sea and the integrity of its ecosystem, the parties stress the importance of
expanding cooperation in solving environmental problems, including coordination of national environmental actions and cooperation with international environmental organizations in order to form a regional system of protecting and preserving biological variety, rational use and replenishment of its biological resources.

The parties acknowledge that the state of the Caspian Sea environment, its population of sturgeon require urgent joint efforts to prevent undesirable environmental consequences. To this end, the parties - as a priority - continue forming the necessary contractual and legal basis for regional environmental cooperation on the basis of the convention for the legal status of the Caspian Sea.

The parties have expressed satisfaction that the framework convention for the protection of the Caspian Sea environment that was signed in Tehran in November 2003 has come into force and have stressed the need to - as soon as possible - develop and adopt additional protocols to it.

The parties have also noted the need to - as soon as possible - finalize the procedural aspects of this convention, especially as regards the location of the permanent secretariat of the convention.

12. The parties confirm the principle of the Caspian littoral states' responsibility for damage caused to the environment of the Caspian and to each other as a result of the use of the Caspian Sea and the development of its resources.

13. The parties state that the Caspian Sea should be used exclusively for peaceful purposes and that all issues in the Caspian [region] will be resolved by the Caspian littoral states by peaceful means.

14. The parties will aim to create and strengthen mutual trust, regional security and stability and will refrain from the use of military force in mutual relations. The parties confirm that their military forces are not aimed for use to attack any of the parties.

15. The parties stress that under no circumstances they will allow for their territories to be used by other states.

16. The parties have expressed satisfaction about the course of the talks on the Caspian Sea's legal regime on the basis of mutual respect, understanding, equal rights and accepted legal norms in a climate of civilized discussion, and have noted the need to continue these talks actively.

17. The parties have acknowledged the importance of security, peace and stability in the Caspian Sea region and expressed their interest in continuing their talks on all issues relating to the sea's security.

18. The parties will help to establish a new world order which is multipolar, more complete and more just in political, economic and legal fields, and will assist, in an all-sided way, the consolidation of the UN's pivotal role as the all-sided mechanism for the preservation of world peace, security and stability.

19. The parties consider the nuclear Non-Proliferation Treaty to be the most important foundation for international security and stability, and have called for the future generalization of this treaty. The parties also confirm the self-evident right of all the NPT's signatory countries to research, produce and use nuclear energy for peaceful purposes, without discrimination and in the framework of the treaty's provisions, and the arrangements of the IAEA.

20. The parties have confirmed the self-evident right of each country to choose the way of development unique to itself on the basis of respect for human rights, bearing in mind the historical, social and cultural values of the Caspian Sea littoral countries, and express their opposition to interference in the internal affairs of independent countries.
21. The parties believe that the necessary condition for the provision of security, peace and stability in the region is the peaceful, just and lasting resolution of disputes on the basis of the UN Charter, in accordance with respect for sovereignty, territorial integrity and the inviolability of recognized international borders.

22. The parties view international terrorism, separatism and aggression and other manifestations of extremist use of force, as well as illegal trade in drugs and weapons and other forms of organized, extra-territorial crime, as a threat to international security and international political stability.

The parties unconditionally condemn as criminal acts all terrorist actions and methods, regardless of motives and forms, regardless of who the perpetrators are, especially in instances where they threaten regional peace and security. The parties also believe that terrorism cannot and must not be linked to any religion, nationality, civilization or ethnic group.

23. The parties confirm their commitment to the expansion of bilateral and multilateral cooperation in combating terrorism, the illegal transport of drugs and weapons, and extra-territorial organized crime, using the pivotal coordinating role of the UN, on the basis of accurate respect for recognized international principles and norms.

24. The parties welcome the results of the Caspian Sea summit in Tehran and confirm their firm resolve to assist, in an all-sided way, the expansion of cooperation between the littoral countries.

25. The next summit of Caspian Sea littoral countries will be held in Baku, the capital of the Republic of Azerbaijan, at an agreed date in October 2008.

On behalf of the Republic of Azerbaijan, Ilham Aliyev
On behalf of the Islamic Republic of Iran, Mahmud Ahmadinezhad
On behalf of Kazakhstan, Nursultan Nazarbayev
On behalf of the Russian Federation, Vladimir Putin
On behalf of Turkmenistan, Gurbanguly Berdimuhamedow
“The society that separates its scholars from its warriors will have its thinking done by cowards and its fighting by fools”

Thucydides