

# Energy Deposits and Contested Maritime Boundaries in Eurasia

PONARS Eurasia Policy Memo No. 239  
September 2012

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Numerous boundary disputes in Eurasia concern regions with proven or suspected petroleum deposits. Some of these disputes have been solved peacefully, as in the case of Russia and Norway, which successfully delimited their maritime boundary in 2010. Others remain unresolved and even lead to military build-ups and confrontations, as in the Caspian Sea. This memo outlines a set of petroleum-related maritime disputes in which Russia has a stake. It argues that Russia's actions are driven by political and geo-economic considerations and that financial gain is a secondary concern in these disputes.

Across the globe, numerous states make competing claims for maritime regions in which oil and gas deposits are suspected or already known to exist. Most prominent today is the South China Sea, where China insists on maritime boundaries that conflict with the claims of its neighbors, including those of the Philippines and Vietnam. Similarly, China and Japan have a long-standing dispute in the East China Sea, where considerable gas resources are assumed. Since 2008, substantial gas finds in the Eastern Mediterranean have aggravated existing tensions between the Republic of Cyprus and Turkey and have transformed the undelimited maritime region between Israel and Lebanon into a possible source of friction as well. In Eurasia, the most prominent petroleum-related boundary disputes remain those among Caspian states—between Azerbaijan and Turkmenistan and between Iran and the four other littoral states. Similarly, Russia and its Arctic neighbors have unresolved maritime issues in the far north, where speculation on substantial petroleum reserves abounds.

There are several historical examples of states using military action to capture territories because of the petroleum resources associated with them. Prominent cases are Japan's aggression toward Indonesia, Nazi Germany's drive toward Baku in World War II, and Saddam Hussein's decision to invade Kuwait. Less known is the Chaco War between Bolivia and Paraguay, in which suspected oil deposits also played a part. Increased control over energy supplies in the Middle East has been mentioned as one of the possible motives behind the U.S. invasion of Iraq, although the evidence is arguably less clear in this case. With regard to maritime disputes between neighboring states, however, the aim of seizing and holding entire resource areas has not been an important rationale for the use of force. Rather, the use of force serves to demonstrate sovereignty over a disputed maritime region and strengthen a country's claim to it, or to hinder the exploratory activities of another state and its associated companies. Protection of a state's claim strength has led China to face off with Vietnam over several islets in the South China Sea, while the interdiction of exploration activities is illustrated by a recent incident in the Caspian Sea. In June 2012, Turkmenistan began exploratory work around a deposit claimed by Azerbaijan as well. Azerbaijan sent gunboats to prevent the civilian research vessel from continuing its work, with both countries filing protests against the other.

### **Comparing the Arctic and the Caspian**

The Arctic and the Caspian provide a useful point of comparison on the issue of undefined maritime boundaries and petroleum deposits because Russia and Norway were able to resolve peacefully a 40-year boundary dispute in the Barents Sea in 2010, while disagreements over the Caspian have continued since the collapse of the Soviet Union in 1991. In April 2010, Norway and Russia made the surprising announcement that they had resolved their territorial dispute in the Barents Sea by essentially dividing the disputed acreage in half. The five littoral states of the Caspian Sea have, in contrast, not yet agreed on its overall legal status and Russia has not actively sought compromise on the matter. Boundary disputes remain between several of the states, though Russia, Kazakhstan, and Azerbaijan have resolved mutual claims against each other.

### **The Barents Sea**

With regard to the Barents Sea, a large number of factors played a role in Russia's decision to strike a deal with Norway. Today, the Arctic is an area of great international interest as ongoing climate change results in the loss of sea ice and opens access to large predicted resource deposits and lucrative new commercial shipping routes at a time when unchallenged U.S. hegemony is coming to an end. This interest is shared by the five Arctic littoral states – the United States, Russia, Canada, Norway, and Denmark – as well as non-Arctic states and organizations, such as the European Union, China, Japan, Korea, India, and Singapore. Accordingly, a key motivator for Russia and Norway was the concern that their ongoing dispute would provide an opportunity for the EU or its member states and other outsiders to influence Arctic affairs and play a larger role in defining how Arctic resources are developed and utilized.

Indeed, both Russia and Norway recently have resolved a variety of outstanding border disputes in an apparent effort to limit the role of outsiders. Just before coming to agreement with Russia, for example, Norway had agreed to a similar arrangement with Denmark. Likewise, by resolving its overlapping claims with Norway and consolidating its sovereign rights, Russia was able to focus on its other plans for development of the Arctic. These efforts include what Russia considers to be more important claims to delimiting the outer continental shelf, as well as exertions to develop extensive Arctic energy fields and regulate potentially lucrative shipping connecting Europe and Asia through the Arctic. Russia was particularly interested in preventing the formation of a joint NATO front in the Arctic since the four other Arctic states are all NATO members. The high north plays a large role in Russia's nuclear strategy since it is the base for many of its nuclear submarines.

The economic crisis of 2008 was also likely one of several motivators for Russia to sign the agreement. The global economic slowdown, which had severe consequences for Russia, made it clear that the country could not expect to thrive on the basis of autarky. Russia particularly needs access to Western technology and investment funding to develop its Arctic resources and the ongoing dispute with Norway made such access less likely. Oil companies need to be assured that their drilling licenses will not be revoked before they will make an investment, so the resolution of the conflict increased their confidence. At the time of the treaty signing, the Norwegians had high hopes for joint energy development programs with Russia, particularly regarding the Shtokman gas field. While those hopes remain unfulfilled, they may have contributed to the overall momentum to sign the delimitation treaty.

### **The Caspian Sea**

In contrast to the situation in the Barents Sea, Russia has little interest in addressing the overall dispute about the legal status of the Caspian. This dispute concerns the question of whether the fully enclosed Caspian Sea should be treated as a lake and governed jointly between the five littoral states (Iran's position), or whether it should be regarded as a maritime area and divided into exclusive national sectors according to international maritime law (by now the apparent position of the other littoral states). Working toward a solution of this matter is not in Russia's interest. Resolving the dispute would facilitate the construction of a Transcaspian pipeline carrying Kazakh and Turkmen energy directly to Europe, further reducing Russia's already shrinking ability to control natural gas supplies to Western consumers.

A second obstacle in resolving disagreement over the general status of the Caspian Sea is Iran's inability to develop the resources that are being contested. A country lacking the means to develop contested energy deposits has a reduced incentive to settle a boundary dispute. In fact, it may be in its interest to keep the conflict going, as this will prevent other states from developing the resources as well. Iran now lacks the ability to develop Caspian petroleum deposits due to general investment problems and the ongoing sanctions against it. Furthermore, Tehran controls lucrative deposits

elsewhere on its territory and prioritizes their development, further reducing Iran's interest in defining the legal status of the Caspian.

The overall legal status of the Caspian is not the only problem; numerous bilateral disputes exist between the various littoral states. While Azerbaijan and Turkmenistan have agreed to divide the maritime area between them into exclusive national sectors, they disagree on the specific dividing line to be used. Turkmenistan rejects the boundary used by the Azerbaijani government in its awards of petroleum concessions because it has not been modified to reflect the irregularity of Azerbaijan's coastline. This has led to competing claims of ownership over the Serdar field, as well as over parts of the area containing the Azeri and Chirag fields. Turkmenistan has laid claim to part of the profits earned by the Azerbaijan International Operating Company. Azerbaijani observers point to claims that continued conflict could open the door to Russian or Iranian intervention. Again, Russia benefits from the continuing disagreement because it reduces the chances of energy flowing from Central Asia to Europe. Azerbaijan's relations with Iran are also poor. In July 2001, the Iranian military forced an Azerbaijani survey vessel to leave a disputed part of the Caspian that contains the Alov-Sharg-Araz field, known to Iran as Alborz. Now BP and SOCAR are exploiting these deposits. Given Iran's difficult relations with Azerbaijan, Baku's conflict with Turkmenistan works to its favor. Similarly, Iran and Turkmenistan have not come to an agreement on how to draw a boundary between them. Non-Caspian powers in the West or NATO can use these conflicts as an excuse to intervene, which should provide the various sides with at least some incentive to manage the disputes on their own. The stakes remain high since in July 2012 Iran announced that it had just discovered \$50 billion worth of oil in the Caspian.

When it is in its interest to do so, Russia has been able to cooperate in the Caspian. It defined an equidistant boundary with Kazakhstan in 1998 and 2002 and agreed to jointly develop three offshore oil fields (Kurmangazy, Tsentralnoe, and Khalynskoe) in the northwestern part of the Caspian, dividing the income from them. In this deal, Kazakhstan made major concessions to Russia because Kazakh President Nursultan Nazarbaev felt that it would be better to be able to export from some parts of the Caspian rather than not be able to export from any part of the region. Similarly, Russia and Azerbaijan agreed to an equidistant boundary in the Caspian, while Kazakhstan and Azerbaijan have a similar treaty.

### **Why Does Cooperation Prevail in Some Cases But Not Others?**

What factors led Russia to resolve some maritime issues but not others? In the Barents Sea, a drive toward the exploration of offshore oil and gas deposits was likely not a major consideration. Russia still controls vast untapped petroleum resources on land and could have left the maritime dispute in the Barents Sea in a permanent state of limbo, especially since Norway has consistently refrained from unilateral exploration activities in the disputed region. The sudden Russian interest in the resolution of overlapping claims stemmed from a political consideration: resolving a long-standing disagreement that offered other states – Arctic and non-Arctic alike – an opportunity for

intervention. Additionally, a desire to strengthen the UN Convention on the Law of the Seas as the framework for the resolution of other Arctic disputes could have been a plausible Russian interest.

In the Caspian, Russia concluded maritime boundaries with both Azerbaijan and Kazakhstan in the early 2000s. Compromise on these boundaries may have been facilitated by the fact that both Azerbaijan and Kazakhstan offered Russia a stake in the development of several known offshore fields, giving it increased influence over the petroleum activities of these two states. But with regard to the conflict over the general legal status of the Caspian, Russia has not actively sought a comprehensive compromise. This is unsurprising insofar as the remaining disagreement with Iran hampers the construction of a Transcaspian pipeline, something that could only diminish Russian control over energy flows to Europe. In this regard, it is convenient for Russia that Iran also has no interest in resolving the overall Caspian dispute (since it is hard pressed for investment capital and has more attractive petroleum deposits to develop elsewhere on its territory).

In conclusion, Russian actions suggest that the Kremlin's top priority is maximizing political and geostrategic control over key disputed territories on its borders, such as the Arctic and Caspian Sea. Russia will use either cooperative or confrontational means to maximize control over this territory depending on the ability of such means to maximize control. Financial motives play a role, but they are secondary to concerns about retaining control and reducing to a minimum the power of outsiders to influence what happens with these territories.

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