

# Value Tradeoffs and America's Caspian Policy: Energy, the Environment, and Sustainable Development

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The Caspian Sea embodies one of the crucial tensions of international politics. On one hand, its vast deposits of oil and gas beckon political elites and multinational corporations to compete for resource development projects. On the other hand, the Caspian is a closed ecological system. Without concerted management by all of the littoral states--including Russia, Azerbaijan, Iran, Turkmenistan, and Kazakhstan--rapid, intensive energy development will cause pollution, environmental degradation, and loss of fisheries. These factors, compounded by social and economic polarization caused by mass influx of oil and gas wealth, could seriously undermine the social and economic stability of the entire region. Specifically, the potential consequences include dislocation of littoral communities, migration, ethnic tension, civil unrest, and even interstate military conflict. In order to avoid such outcomes it is important to recognize tradeoffs among economic, environmental and political values.

## **The US in the Caspian Region**

American objectives in the Caspian have nominally included the promotion of democracy and free markets, regional peace and cooperation, energy diversification, and American business opportunities. In practice, however, the focus of such efforts has been on energy issues. Accordingly, the Clinton Administration has hosted the leaders of the post-Soviet states, promoted the involvement of American firms, and encouraged specific deals for new pipelines and transportation links. Along the way, US policymakers have tended to emphasize bilateral solutions to Caspian problems. While offering the prospect of immediate rewards, this strategy--through neglect of environmental and other sources of regional destabilization--is dangerously shortsighted.

In addition to the environmental and social stability issues mentioned above, policymakers should be concerned by the effect of America's Caspian policy on US-Russian relations. Russia's concerns go beyond NATO enlargement--the lens through which American policy is often viewed--to include numerous instances of US intervention in Caspian politics (including support for dividing the seabed, endorsement of the Baku-Ceyhan pipeline as the main export route from Azerbaijan, and calls for Azerbaijan and Turkmenistan to resolve their quarrel over the delimitation of national zones). Although domestic political developments have shifted Russia's Caspian policy, making it more in line with American policy, US intervention is still widely resented for its perceived arrogance and marginalization of Russian concerns. And while

Administration insiders have increasingly voiced the need to include Russian firms in oil and gas transportation deals, such concessions are rendered ineffective by the absence of any larger framework for systematically addressing Russian concerns.

An additional plank of American policy is preventing the spread of Islamic fundamentalism and terrorism. In practice, this means containing Iranian influence abroad while pressing for a domestic political transformation. President Clinton has pursued these goals by signing the Iran and Libya Sanctions Act of 1996 (amended in 1997) which imposes sanctions on companies investing over \$20 million per year in Iran. Despite Washington's reticence to impose sanctions on construction of a pipeline from Turkmenistan through Iran to Turkey, and despite some softening of American policy in early 1998, well-placed officials emphasize that the United States remains committed to the blockade. This is a classic example of trying to have one's cake and eat it, too. America's Iran policy undermines the logic of the much-publicized commitment to "multiple pipelines," since the inability to fully pursue an Iranian export option only makes Azerbaijan, Kazakhstan, and Turkmenistan more vulnerable to pressure from Russia. Furthermore, the policy is increasingly outdated by the evolving political context in Iran.

Finally, there are opportunity costs of America's pattern of bilateral initiatives. While seeking to bolster the former Soviet States' sovereignty (and perhaps also domestic legitimacy), US policy has provided Azerbaijan, Kazakhstan, and Turkmenistan with an alternative to institutionalized collaboration with Russia. Until recently, Washington has managed to avoid painful value tradeoffs in pursuing this policy, since these states have been anxious to offset Russian dominance and eager for outside investment capital. However, present conditions make this policy counter productive: it unnecessarily exacerbates the competitive dimension of regional politics; facilitates excessively rapid extraction of hydrocarbon deposits; and inhibits establishment of a regime for political cooperation and sustainable development.

In sum, the greatest shortcoming of America's official Caspian policy is lack of clear prioritization among stated goals. This is especially troubling when, as suggested above, ostensibly complementary goals are incompatible in practice. At this juncture it is crucial to differentiate between long- and short-term objectives, and between means (such as multiple pipelines) and ends (such as peace and prosperity). From this perspective, the vital American interest in both the short and long haul is regional stability, and democratic-political and market-economic reforms likely to further that end should be encouraged. Environmental integrity--and institutionalized international cooperation to achieve it--is desirable for the same reason. Diversification, as well as gaining proceeds from oil exploitation--while both significant--are distinctly secondary US national interests, long-term objectives that do not require the sacrifice of other key goals in the short term.

### **Breakthrough in the Legal Dispute?**

The struggle for control over Caspian resources has centered on the permissibility of dividing the Sea--especially the seabed and subsoil--into exclusive zones to be used by each state for its own purposes. From 1994 until early 1998 the parties were unwilling to resolve this question through negotiation, and the contest for control over resources devolved into an abstruse debate over

legal jurisdiction. With the shift in Russian domestic politics during the second half of 1997, however, there has been an apparent breakthrough in negotiations. Russia and Kazakhstan have accepted the approach of dividing the seabed and subsoil while considering the water column and natural resources within it to be common property of the littoral states. Turkmenistan's position remains unclear but it is apparently close to that of Russia and Kazakhstan, leaving Azerbaijan and Iran as holdouts. Azerbaijan has refused to accept the approach of dividing only the seabed, insisting that the water resources should be divided as well. Tehran continues to reject the principle of division per se except for narrow coastal zones. As such, it is doubtful that any lasting settlement of the outstanding legal disputes will occur soon. Even if Iran moves toward accepting seabed division, squabbles over the exact line of demarcation are likely to continue between Azerbaijan and Turkmenistan. Meanwhile, potentially serious disagreements on other issues (including fishing catch, pollution control, navigation, and sea level management) are likely to continue and may even be exacerbated by piecemeal agreements on energy extraction.

### **A Multilateral Framework for Caspian Cooperation**

Initiatives already undertaken by the World Bank, UNEP, and other international organizations can dramatically accelerate such collaborative work, particularly given recent expressions of interest in the region's capitals. Since similar initiatives (dating back to 1992) have met with no apparent result, it is important to understand the prospective components of a multilateral, sustainable development regime in the Caspian, and the impediments to its realization thus far. In the abstract, the benefits of a regime to address Caspian problems appear unequivocal--combining private ownership and public accountability within a system of regulatory measures to encourage entrepreneurship and provide social and environmental guarantees. Formal regime structures and rules are crucial for initiating and sustaining cooperation in the unstable Caspian context, and would address rational investment by reducing uncertainty, guaranteeing secure transit, and solidifying contractual arrangements.

However, regimes cannot be built in a political vacuum, and viable international agreements must be crafted within a framework of the perceived national interests of the states involved. The recent agreements on stratified ownership between Russia and Kazakhstan (involving individual state ownership of seabed resources and shared ownership of fishing stocks in the central aquatorium) could provide a solid legal foundation for a sustainable development regime, if ultimately accepted by Iran and Turkmenistan. Such a regime would underscore state interdependence by establishing functional issue-linkages between fishing, energy extraction, pollution control, transportation, and sea-level management. For fishing, this would involve establishment of a quota system in which the portion allotted to each state (and its domestic harvesters) would be determined in relation to a set of variables reflecting each state's contribution to total stocks. Necessary components would include monitoring (to determine stocks and their movement and to identify actual catch practices, both legal and illegal) and enforcement powers. Instituting such measures would not only help stabilize fish stocks, but would help reduce the rampant corruption--so inimical to democratization--linked to poaching in the Caspian basin. Fishery management also involves pollution-control, since stock viability and human consumption are at risk. Given the closed nature of the Caspian system, pollution affects

all social and commercial activities around the basin and requires vigorous intervention. Formulating specific rules would be advisable (e.g. requiring double-hulling and ballast and waste water discharge equipment standards for tankers; and regulations regarding location, thickness, depth, monitoring technology, and bed structure for pipelines).

It is important to acknowledge that ecological standards would impose restrictions on certain oil and gas exploitation, including technical requirements for drilling and transportation (especially in the northern "shallow-water" zone), though they need not prevent states (or multinational oil companies) from supporting the regime. As long as the prospect of developing significant fuel deposits is ensured along with the political and other intrinsic benefits of environmental security, concessions of this sort may well be acceptable. While compensation agreements may be possible once the reciprocal benefits of cooperation have been well established, the key benefits of compliance would come in the form of reciprocal agreements for energy transportation, including open access to pipelines, shipping lanes, and port facilities, as well as uniform transit fees. An optimal arrangement would build on the "multiple pipelines" concept by including Russia and Iran as significant (but not preponderant) export outlets. This would give these potentially troublesome actors a stake in cooperating, and thereby strengthen the viability of the regime while simultaneously fostering diversification. Finally, issue-linkage within the regime would also cover sea-level management--in view of its indirect impact on fish stocks and direct impact on the fishing and energy industries in flood-prone areas--by focusing on the construction of canals and sluices to regulate fluctuations (again, potentially involving compensatory arrangements).

Cooperation for sustainable development is a crucial first step, offering significant benefits in its own right and promoting a broader pattern of multilateral governance. Establishment of a sustainable development regime could provide a foundation for more extensive collaboration across a wide range of areas: infrastructural development; military cooperation for limited security objectives; and coordinated customs arrangements, including communications and freight transportation through the Eurasian corridor (TRASEC). Ultimately this might include the emergence of a regional common market in energy and other trade in goods and services. At the same time the regime-building process would likely have positive domestic effects as well. The creation of an open forum for sharing information and monitoring environmental performance would significantly contribute to the emergence of NGOs in the area, in turn strengthening state capacity for fulfillment, and contributing to the development of civil society.

## **Conclusion**

Happiness in the Caspian sea is not, as the bumper-stickers would have it, simply about multiple pipelines. Rather, multilateral cooperation is required to achieve the truly fundamental goals of economic growth and political stability. Establishing a set of clear legal guidelines for seabed ownership, transit rights, and natural resource management would facilitate cooperation on a range of key issues. Furthermore, US policy must not overlook environmental issues in the promotion of other objectives such as democracy, free markets, energy diversification and American business opportunities. Far from being an irrelevant sideshow, environmental cooperation can stabilize the benefits of the energy boom and contribute to regional stability.

Alternate pipeline routes are nevertheless important for ensuring stable access to outside markets. The political benefits are at least as significant: guaranteeing that part of the oil flows north to Novorossiisk and south from Turkmenistan through Kurd Kui would gain Russian and Iranian support and give pragmatists in both states a greater stake in cooperative outcomes. The proposed trans-Caspian pipeline would preclude this, and be environmentally dubious in the extreme.

Clearly, anxieties on the part of Azerbaijan, Kazakhstan, and Turkmenistan about maintaining political autonomy must be allayed. Yet the likelihood that unilateral (and bilateral) strategies will yield suboptimal results--coupled with the high risks and uncertainty surrounding Caspian development and associated environmental problems--makes multilateral cooperation an attractive prospect. The emergence of a new, dominant coalition in Russia offers the potential for institutionalized regional cooperation. A key missing variable is political leadership to support the idea of building institutional bridges. The US can exercise such leadership, and further its national interests in the region, by offering expert advice, selective financial assistance, and political support for this outcome. Three critical steps for such a policy are:

1. lifting the blockade and opening diplomatic relations with Iran;
2. working to include Russia and Iran in multilateral, cooperative development projects and pipeline routes; and
3. promoting environmentally sustainable approaches to regional development