

# Russia's New Caspian Policy

Doug Blum

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This memo outlines and interprets Russia's new, self-styled "active policy" in the Caspian Sea launched under Vladimir Putin to promote and defend Russia's regional interests. This "active policy" takes shape against the background of the policy in effect from 1998 to 2000 (predictably termed "passive"). In this previous period Russian policymakers, for all their newfound pragmatic principles, lacked a consistent strategy for advancing Russian interests on a day-to-day basis. Instead there was a tendency to offer sweeping solutions to all Caspian problems or--especially during Yeltsin's last year--to simply hunker down and await a new opportunity: a new Russian leader, a new American president, or a break in the complex system of Caspian geopolitics and energy.

In contrast, Putin's new approach is more akin to the classic entrepreneurial image: energetically knocking on doors, offering a better mousetrap, and getting a jump on the (American) competition. The key goals of this new approach are abundantly clear in the pattern of Russia's diplomacy: 1) drumming up business deals for Russian firms and provinces; and 2) fostering integration--of economies, of markets, of security arrangements, and ultimately of Russia itself into the international system. While the above aspirations are goals in their own right, perhaps a third might be mentioned as well, even if it only describes the competitive context in which the first two are to be sought: 3) winning the race for energy--to locate deposits, to extract their reserves, and especially, to lock up the coveted pipeline routes to world markets.

The following will provide a concise update of specific developments in Russia's Caspian policy, focusing on the themes of:

- legal ownership and energy development;
- oil and gas transportation;
- shipping;
- fisheries management and the environment; and
- integration and intergovernmental organization.

## **Legal Ownership and Energy Development**

A key theme in Russia's Caspian diplomacy of late has been promoting the rapid division of undersea hydrocarbon resources in order to facilitate equally rapid extraction. This idea does not involve formal delineation of state borders and does not imply any final disposition of seabed and water resources, or indeed any other practical question. Yet it obviously carries tremendous implications for the ultimate state ownership of and access to energy deposits, for which reason it has aroused considerable attention, both positive and negative.

To some extent this is merely a formal extension of the 1998 Russian-Kazakhstan agreement based on a modified median line arrangement, but the new approach involves a significant element of pragmatic compromise in agreeing to split the difference in cases where disputes result over ownership of subsoil deposits. Russia has also suggested that in such cases the states involved might jointly develop the fields. In addition to a recent reaffirmation of an understanding with Kazakhstan, there have been numerous indications of progress in Russian negotiations with Azerbaijan. Iran and Turkmenistan, however, remain staunchly opposed to the Russian plan, insisting that the entire sea be divided into equal sectors before any other arrangements can be finalized.

While Russia's interim plan for pragmatic subsoil resource allocation does not foreclose any future discussion of the final regime in the sea, it is certainly not coincidental that this initiative leaves the water column alone. On this question there has been no change whatsoever; Russia continues to insist on the non-divisibility of the sea into sovereign sectors. As in the earlier approach, this insistence is justified in terms of three issues: freedom of navigation, shared fisheries management, and environmental protection. In the Russian view, full sectoral delimitation would undermine each of these important objectives. It may be, as well, that Russia's position on this point is related to its strategic resistance to any trans-Caspian pipelines, although this linkage is never explicitly made.

## **Oil and Gas Transportation**

A second hallmark of the new policy is Moscow's eager willingness to increase quotas for energy transit across Russian territory. The most dramatic example is an agreement to raise Kazakhstan's total oil transit quota by 4.5 million tons. This includes exports via the Atyrau-Samara pipeline, whose throughput capacity is being substantially increased, as well as a proposal for Kazakhstan to ship the bulk of the increased quota to Makhachkala, where it would be connected to a newly completed spur pipeline around Chechnya and then on to Novorossiisk. As for Azerbaijan, in late 1999 Moscow offered to sharply increase the quota for the Novorossiisk route (from 5 million to between 12-15 million tons), but the Aliev regime declined to place more eggs in the Russian basket. The offer still stands, however, and it is possible that an increase will yet be announced. Similar offers have been made to Turkmenistan. More significant with regard to Turkmenistan, however, was an agreement in late 1999 to export up to 100 billion cm of gas to Russia (albeit at Gazprom's monopolistic pricing levels). This in turn is related to Russia's

aggressive efforts to take advantage of the suddenly favorable international market for energy, since the plan is apparently to use the cheap Turkmenistan gas for delivery to the domestic energy giant United Energy Systems (EES), thereby allowing Russia (and Gazprom) to maximize exports. In a similar vein, a plan was announced in May for joint Russia-Kazakhstan gas exploitation and transportation to Europe (whereby Gazprom will replace Tractebel as Kazakhstan's partner). And of course the Blue Stream project for gas exports to Turkey remains under way, with potential to combine Russian, Kazakhstan, and Turkmenistan product in the future.

To be sure, this willingness to increase transit quotas is not new in itself; Kazakhstan's quota, for example, was significantly increased in 1999, and calls to rely on the northern (Russian) route were certainly made during Yeltsin's tenure in office. What is new now, however, is the flexibility of arrangements and--with the impending completion of the Tengiz-Novorossiisk line--the fact that Russia's infrastructure is far more advanced than any of its competitors. Moreover, the bustling energy diplomacy reflects a crucial (and probably correct) perception that there is a high speed race on, one to some extent associated with zero-sum gains. Russian ability to quickly establish a gas supply network to Turkey and Europe could nullify prospects for the competitor Trans-Caspian Pipeline (TCP). Likewise, success in connecting northern Caspian structures to the Russian oil pipeline system might well undermine the feasibility of the Baku-Ceyhan line. With time a key factor and so much at stake, an "active policy" is precisely what is called for.

## Shipping

As globalization proceeds and the Caspian region develops, Eurasia's significance for shipping increases dramatically. Therefore, aside from the energy sweepstakes, another potential bonanza is involved in the contest over freight transportation routes. Putin's new policy has been extraordinarily innovative in this area. From being grumpily sidelined in the early Transport Corridor Europe-Caucasus-Asia (TRACECA) negotiations, Russia has now moved to insinuate itself as a linchpin in a number of complementary transport schemes. On a transcontinental scale these include:

- an East-West route, possibly including China-Kazakhstan-Russia-Europe (or the original TRACECA concept with new Russian participation);
- a North-South route. Although this idea had been discussed with Iran for years, it had languished in practice. Now, suddenly, Russia has signed an agreement with India and Iran, one which prospectively includes Kazakhstan, Turkmenistan, and other Persian Gulf states as well; and
- in the immediate Caspian region, a route from western Central Asia to Kazakhstan's Aktau port, and then to Russia and beyond.

These routes would parallel the enhanced trans-Siberian one (including proposed improvements for truck and rail traffic), which would connect Europe, Russia, the Koreas, and Japan/East Asia (with branches to northwest Kazakhstan, China, and Mongolia).

Once freight reaches Russia's Caspian shores, there are already several branch routes available for final destinations in Russia itself as well as further transit to Europe. In addition, there are plans to improve the Volga-Don infrastructure in order to more closely connect Caspian and Black Sea markets, and to expand trans-Volga transportation to link southern cargo with ports on the Baltic. In all of these ways, the commitment to establishing Russia as a global transportation hub contributes to the realization of key goals: integration with Caspian states and the international economy beyond, heightened trade (which has plummeted since 1991), and development of Russia's Caucasus provinces. Trade integration offers enormous opportunities for Astrakhan, Dagestan, and to a lesser extent even Kalmykia (Lagan port is undergoing refurbishment, and in the future may augment or compete with Olia and Makhachkala), and may also prove invaluable for the lower Volga cities of Volgograd, Saratov, and Samara. Naturally this is significant for Putin's domestic goals and political fortunes.

### **Fisheries Management and the Environment**

Preserving the Caspian ecology continues to be a significant element of the new policy approach. As already noted, this objective is linked to Russia's refusal to countenance full sectoral division. The importance of this issue has to be understood as partly functional, related to the fishing industry, as Russia has continued to demand stricter allocation and enforcement of existing management agreements, as well as combined efforts to limit poaching. These practical concerns are related to overall catch declines as well as a critical collapse of the sturgeon and caviar fisheries. In addition, ecological concerns appear to have acquired intrinsic normative significance, and Russia has proposed establishing a joint "Strategic and Economic Center" for environmental monitoring, data storage, and strategic planning on the part of the littoral states. This idea was championed in an open letter from leading experts from the Russian Academy of Sciences, and was readily supported by the Ministry of Foreign Affairs as a presumably preferable alternative to the Caspian Environmental Program supported by leading outside intergovernmental organizations (IGOs). At the same time, however, Putin has clearly signaled that environmental concerns need not prevent rapid development of energy resources, as long as reasonable guidelines are followed and state-of-the-art technology is used.

### **Integration and Intergovernmental Organization**

Even beyond the functional utility of all the agreements outlined above, a new push evident in Putin's Caspian policy is an emphasis on multilateral intergovernmental organization. Formalizing institutional arrangements in this manner appears to be valued in its own right as a way of promoting predictable and stable interactions, which moreover tie the other regional actors more reliably within Russia's sphere of influence. The regional center just mentioned would be concerned with the entire range of Caspian issues--ecological, security, and commercial (including shipping, fishing, and energy issues). Russia has also: championed a resurrection of the free-trade zone idea dating

back to 1994 but never implemented in practice; renewed limited regional security cooperation on the basis of the 1992 Tashkent Accord; and launched a system of overlapping energy cooperation on oil, gas, coal, and electricity with Kazakhstan, Turkmenistan, and Belarus. Finally, Moscow has begun to agitate for a potentially far more ambitious Economic Union with these same partners, involving massive and closely interdependent macroeconomic restructuring.

### **Conclusions and Prescriptions**

- Russia's Caspian policy under Putin includes the establishment of substantively new and newly invigorated goals to win the high-stakes competition for energy deals and favorable transportation routes. Moscow's adroit policy is likely to reap dividends, resulting in consolidated ties with Kazakhstan and possibly a major warming of relations with Azerbaijan. Yet there does not appear to be a significant likelihood of a breakthrough with all of the littoral states in the near future.
- In particular, Russia is poised to gain at least a sizable share of the key energy transit projects currently on the table, and in the process may well succeed in derailing either or both the TCP and Baku-Ceyhan. If such an outcome does occur, however, it should be attributed not to pernicious Russian machinations but rather to a combination of robust diplomatic initiatives, inherent geographic and infrastructural advantages, prevailing geopolitical realities, and the economics of the international energy market.
- While Russia will reestablish itself as a formidable competitor in this region, this need not pose a threat to American interests. On the contrary, a better integrated and more business-like Russia will offer numerous opportunities for US firms operating in the Caspian region, and will likely be more predictable in resorting to economic rather than military instruments to attain desired goals. Although it will bring inevitable setbacks at times for specific business interests, such an outcome would be fully consistent with the fundamental objectives of America's post-Soviet policy.