



# Backgrounders

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## Executive Summary

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## IRAN'S CLAIMS OVER CASPIAN SEA RESOURCES THREATEN ENERGY SECURITY

*ARIEL COHEN, PH.D.*

The need for Washington to focus its attention on energy security and diversification became clear as the war on terrorism began. The U.S. should strongly oppose Iran's threatening military actions to claim a larger portion of the energy-rich Caspian Sea. The Caspian basin, a land-locked body of salt water bordered by Iran, Azerbaijan, Russia, Kazakhstan, and Turkmenistan, harbors billions of barrels of proven oil reserves and over 200 billion barrels of potential reserves. The market value of that oil could exceed \$5 trillion, according to some estimates. The sea also may hold up to 325 trillion cubic feet of natural gas. Combined with Russia's resources, by 2010 the region could supply up to one-half of the energy resources now provided by the Middle East.

Iran, a known sponsor of terrorism, began its aggressive campaign to claim a greater portion of the Caspian Sea with actions that were a blatant violation of international law. On July 23, 2001, an Iranian warship and two jets forced a research vessel working for British Petroleum (BP)–Amoco in Azerbaijan's Araz–Alov–Sharg field (60 miles north of Iranian waters) out of the area. BP–Amoco immediately announced that it would cease exploring that field and then withdrew its vessels.

Iran's leaders assert that it has territorial and treaty rights to as much as 20 percent of the Caspian Sea surface area and seabed, much more than its long-recognized sector of about 12 percent to 14 percent. Tehran's use of military forces to threaten the U.S.–British company in Azerbaijan's sector jeopardizes, in addition to energy production and security in the region, Western investments and economic development.

The Caspian Sea basin is expected to produce and export increasing amounts of oil. This would benefit not only Azerbaijan, Kazakhstan, and Turkmenistan, which depend almost exclusively on oil revenues, but also Russia and Iran, which have major oil deposits in their sectors of the seabed. For the West, oil from this region could bypass the politically risky bottleneck of the Persian Gulf, helping to lessen dependence on OPEC nations.

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The war against terrorism necessitates the protection of U.S. energy and security interests. The provocative actions by Iran jeopardize those interests. Moreover, as a state supporter of terrorism, Iran is likely to use its energy-related revenues to support its ballistic missile and weapons of mass destruction programs. To assure peace in the Caspian Sea region and protect U.S. interests, the Bush Administration should:

- **Call for the demarcation of the Caspian Sea territorial boundaries along the “median line” proposed by the Commonwealth of Independent States.** The Administration should make a strong call for peace and security in the Caspian region and advise Tehran that it should refrain from using military force to deter energy exploration projects in the sectors of its neighbors.
- **Seek a U.N. Security Council resolution calling for the peaceful settlement of the Caspian Sea disputes.** The Administration should seek support from U.S. allies in Europe, particularly Great Britain, who also should demand that Iran refrain from any use of force. Russian President Vladimir Putin has called for the peaceful settlement of claims in the Caspian Sea and should involve Moscow in the drafting of the U.N. resolution.
- **Expand Azerbaijan’s military capabilities through its ties with NATO and the Partnership for Peace (PFP).** Azerbaijan would benefit from the expertise of these other countries by learning how to strengthen its ability to protect

its borders. Programs could include developing an integrated military–civilian air traffic control system; developing and training its coast guard and border guards; upgrading its command, control, communications, and intelligence (C3I) systems to NATO standards; and developing military interoperability with NATO.

- **Expand political and economic ties with Armenia.** The Armenian military is capable of disrupting the flow of oil from the Caspian Sea to ports on the Black Sea and the Mediterranean. Though the Administration is correct in sanctioning Armenian companies for smuggling military and dual-use technology to Iran, Armenia feels isolated and is moving toward closer ties with Iran. The United States should work to expand relations with Armenia in economic and security areas.

**Conclusion.** Energy development in the oil- and gas-rich Caspian Sea basin would help ensure energy security—a key issue in the war against terrorism. It also would promote the independence and economic development of post-Soviet states in that region. But Iran’s aggressive behavior last year could threaten energy development by deterring foreign investment. The United States should call on Iran to stop its aggressive behavior, and it should mobilize its allies to work for a peaceful settlement of the territorial disputes over the maritime borders of the states bordering the Caspian Sea.

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## IRAN'S CLAIMS OVER CASPIAN SEA RESOURCES THREATEN ENERGY SECURITY

*ARIEL COHEN, PH.D.<sup>1</sup>*

The need for Washington to focus its attention on energy security and diversification became clear as the war on terrorism began. The U.S. should strongly oppose Iran's threatening military actions to claim a larger portion of the energy-rich Caspian Sea. The Caspian basin, a land-locked body of salt water bordered by Iran, Azerbaijan, Russia, Kazakhstan, and Turkmenistan, harbors billions of barrels of proven oil reserves and over 200 billion barrels of potential reserves.<sup>2</sup> (See Table 1.) The market value of that oil could exceed \$5 trillion, according to some estimates. The sea also may hold up to 325 trillion cubic feet of natural gas. Combined with Russia's resources, by 2010 the region could supply up to one half of the energy resources now provided by the Middle East.

Last year, Iran—a known sponsor of terrorism—began an aggressive campaign to claim a greater portion of the Caspian Sea and its resources. Its

leaders have asserted that Iran has territorial and treaty rights to as much as 20 percent of the Caspian Sea surface area and seabed, significantly more than its long-recognized sector comprising about 12 to 14 percent.<sup>3</sup> (See Map 1.) Tehran's use of air and naval forces to threaten a U.S.–British company exploring a field in Azerbaijan's sector jeopardizes, in addition to energy production and energy security, Western investments and the economic development of the post-Soviet states in that region.

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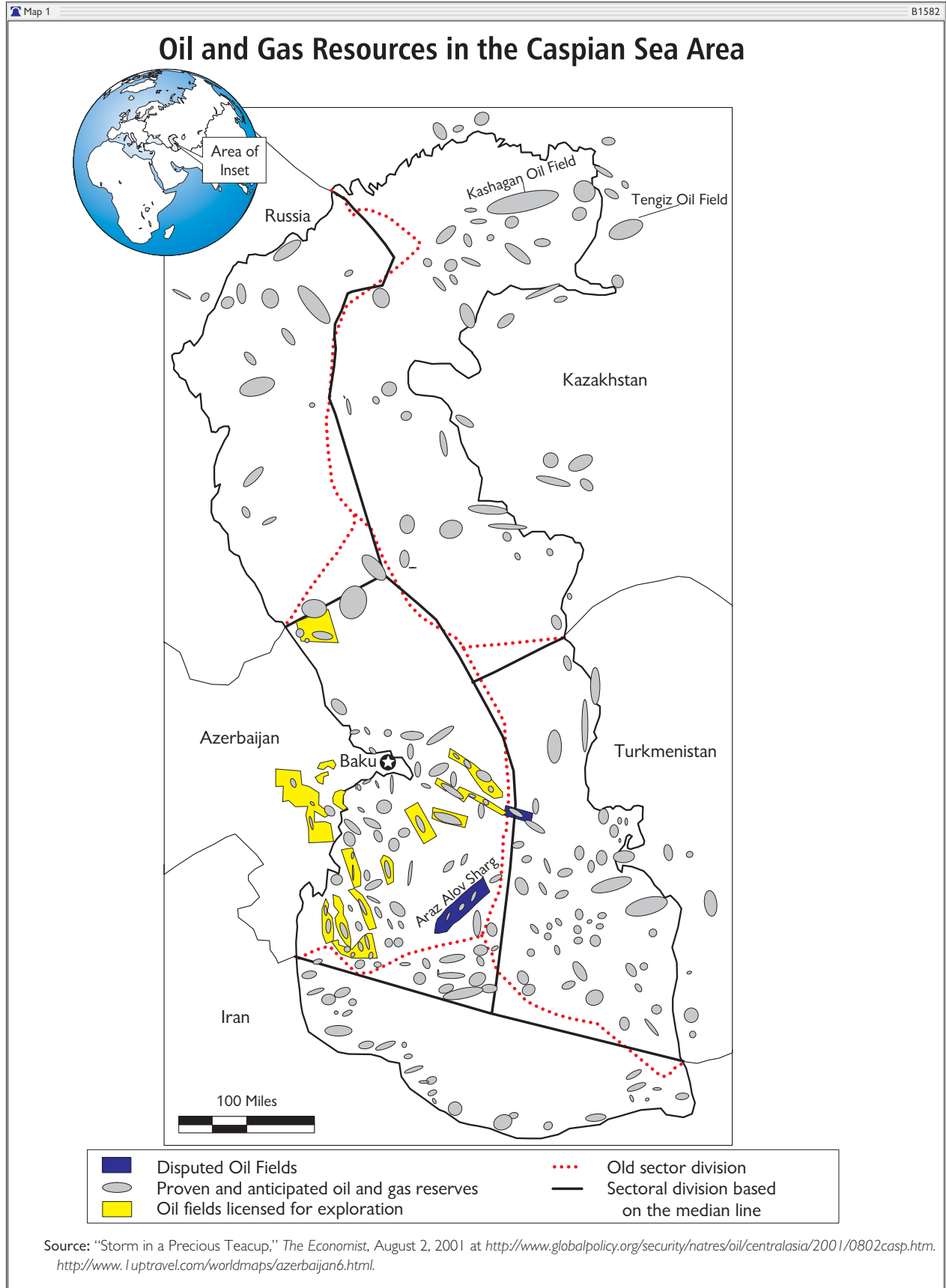
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1. The author thanks Heritage Foundation interns Elena Simonova and Anar Akhmadov for their assistance with the research for this paper.
2. See, for example, Energy Information Administration, at <http://www.eia.doe.gov/emeu/cabs/caspgrph.html#TAB1>; International Energy Agency, at <http://www.iea.org/pubs/studies/files/caspian/overview.htm>; and Ray Leonard, presentation at Center for Strategic and International Studies, at [http://www.csis.org/energy/020600\\_leonard\\_files/frame.htm](http://www.csis.org/energy/020600_leonard_files/frame.htm).
3. Michael Lelyveld, "Russia: Iran Seeks Assurances on Caspian Division," Radio Liberty–Radio Free Europe Newslines, August 14, 2001, at <http://www.rferl.org/nca/features/2001/08/14082001115154.asp>, and "Russia: Moscow May Intervene in Caspian Dispute," Radio Liberty–Radio Free Europe Newslines, August 3, 2001, at <http://www.rferl.org/nca/features/2001/08/03082001113745.asp>.



*NOTE: Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.*

Table 1 B1582

### Estimated Oil and Gas Reserves in the Caspian Sea Region

Estimate Source: Commodity	Energy Information Administration			International Energy Agency		
	Proven reserves	Possible reserves	Total	Proven reserves	Possible reserves	Total
Oil (in billions of barrels)	18–34	235	253–269	15–40	70–150	85–190
Gas (in trillion cubic feet)	243–248	328	571–576	237–325	283	520–608

Source: Energy Information Administration, at <http://www.eia.doe.gov/emeu/cabs/caspgraph.html#TAB1-Original>, and International Energy Agency, at <http://www.iea.org/pubs/studies/files/caspian/overview.htm>.

Table 2 B1582

### Growth of Oil and Gas Production and Exports in the Caspian Sea Region

Energy source	Production			Net Export		
	1990	2000*	2010**	1990	2000*	2010**
Oil (in thousand barrels per day)	1,216.40	1,284.00	3,900.00	86.90	713.00	3,200.00
Gas (in billion cubic feet per year)	5,358.80	4,032.00	8,500.00	2,112.60	1,480.00	4,850.00

Notes: \*Estimated production. \*\*Possible production.  
Source: Energy Information Administration, at <http://www.eia.doe.gov/emeu/cabs/caspgrph.html#TAB1-Original>.

The Caspian Sea region is expected to produce and export more oil in the future. (See Table 2.) This would benefit not only Azerbaijan, Kazakhstan, and Turkmenistan, which depend almost exclusively on oil revenues, but also Russia and Iran, which have major oil deposits in their sectors of the seabed. For the West, oil from this region could bypass the politically risky bottleneck of the Persian Gulf, helping to lessen its dependence on OPEC nations.

Iran's actions should not be tolerated. Washington should promote peace and security in the Caspian region to ensure the flow of foreign investments to energy resource development and transport to global markets. The Bush Administration should voice its strong opposition to Tehran's attempts to bully its neighbors and expand Iran's claims to Caspian Sea energy resources. It should support a U.S. Security Council resolution calling for the peaceful settlement of all Caspian Sea disputes. And it should work with its NATO allies to

help Azerbaijan expand its military, coast guard, and border control capabilities.

### IRAN'S THREAT TO PEACE IN THE CASPIAN REGION

Iran's use of military force to assert its claim to part of Azerbaijan's sector of the Caspian Sea undermines energy security and the future of Caspian oil and gas development. Iran not only has violated its neighbor's air space and territorial waters, but on one occasion even amassed ground troops on their border.<sup>4</sup>

These aggressive actions were a blatant violation of international law. On July 23, 2001, an Iranian warship and two jets forced a research vessel working on behalf of British Petroleum (BP)–Amoco in the Araz–Alov–Sharg field out of that sector. That field lies 100 kilometers (60 miles) north of Iranian waters. Due to that pressure, BP–Amoco immediately announced that it would cease exploring that

4. Mahir Iskenderov and Tim Wall, "Caspian Sea Disputes Flare, Raising Doubts About Oil and Gas Exploration," *Eurasianet.org*, August 7, 2001, at <http://www.eurasianet.org/departments/insight/articles/eav073101.shtml>.

Table 3 B1582

### International Oil Consortia Operating in Azerbaijan

Company	Date Signed	Shareholders' Percentage of Ownership
AIOC (Azerbaijan International Operating Company)	September 20, 1994	BP Amoco (34.1); Statoil (8.56); Itochu (3.92); Exxon (8.0); Ramco (2.08); Unocal (10.04); TPAO (6.75); Delta (1.68); Lukoil (10.0); Pennzoil (4.81); SOCAR (10.0)
Shakh-Deniz	June 4, 1996	BP Amoco (25.5); Lukoil (10.0); TPAO (9.0); Statoil (25.5); Elf (10.0); SOCAR (10.0); OIEC (10.0)
Lenkoran-Talysh Deniz	January 13, 1997	Elf (40.0); OIEC (10.0); Petrofina (5.0); Total (10.0); Wintershall (10.0); SOCAR (25.0)
Apsheron	August 1, 1997	Chevron (30.0); SOCAR (50.0); Total (20.0)
Nakhchivan	August 1, 1997	Exxon (50.0); SOCAR (50.0)
Yalama	July 4, 1997	LUKARCO: Lukoil (32.4); ARCO (27.6); SOCAR (40.0)
Oguz	August 1, 1997	Mobil (50.0); SOCAR (50.0)
Kurdashi	August 1, 1997	SOCAR (50.0); Agip (25.0); Mitsui (5.0); TPAO (5.0); Repsol (5.0)
Jenubi-Garbi Gobustan	June 2, 1998	Commonwealth Oil and Gas (80.0); SOCAR (20.0)
Kursangi and Garabagly	June 2, 1998	Frontera Resources (30.0); Delta Oil/Amerada Hess (20.0); SOCAR (50.0)
Muradkhanli, Jafarli, and Zardab	July 22, 1998	Ramco (50.0); SOCAR (50.0)
Inam	July 22, 1998	BP Amoco (25.0); SOCAR (50.0); Monument Oil and Gas (12.5); Central Russian Fuel (12.5)
Araz-Alov-Sharq	July 22, 1998	BP Amoco (15.0); Exxon (15.0); Alberta Energy (5.0); Statoil (15.0); TPAO (10.0); SOCAR (40.0)
Ateshgah, Yanan Tava, and Mugan Deniz	December 25, 1998	JAPEX (22.5); Teikoku (7.5); INPEX (12.5); ITOCHU (7.5); SOCAR (50.0)
Zafar, Mashal	April 27, 1999	Exxon (20.0); SOCAR (50.0); with 20.0% to be determined
Savalan, Dalga, Lerik Deniz, Janub	April 27, 1999	Mobil (20.0); SOCAR (50.0); with 20.0% to be decided
Padar	April 27, 1999	Moncrief Oil International, Inc. (80.0); SOCAR (20.0)

Source: Energy Information Administration, at <http://www.eia.doe.gov/emeu/cabs/caspgrph.html#TAB1>-Original, and International Energy Agency, at <http://www.iea.org/pubs/studies/files/caspian/overview.htm>.

field, which it did by withdrawing the research vessels.<sup>5</sup>

Iran's leaders have stepped up their claims. Deputy Foreign Minister Ali Ahani has stated that no energy exploitation by bordering countries should

take place in disputed parts of the sea.<sup>6</sup> His superior, Foreign Minister Kamal Kharrazi, escalated the rhetoric and declared that no bordering country has the right to exploit the Caspian energy reserves "before a legal status is established for the sea."<sup>7</sup>

5. BBC News, "Azerbaijan Protests Over Iranian Ship Interception," July 24, 2001.

6. "Iran's Deputy Foreign Minister to Arrive in Azerbaijan," *Pravda Online*, August 27, 2001, at <http://english.pravda.ru/cis/2001/08/27/13387.html>.

Senior Iranian politicians even remarked that Azerbaijan used to be an Iranian province, implying that Iran's actions are therefore justified.<sup>8</sup>

Thus far, Azerbaijan has acquiesced to the pressure from Iran. During a May 2002 visit to Iran, Azerbaijani President Heydar Aliiev agreed to stop exploration in the disputed oil field of Araz–Alov–Sharg until the border issue is settled—a small but significant achievement for Iran. As Aliiev departed Tehran, Iranian President Mohammad Khatami reiterated Iranian claims for 20 percent of the territory and the shelf of the Caspian Sea, stating, “We have rights in the Caspian Sea and are determined to defend those rights.”<sup>9</sup> His statement cast a long shadow over the earlier Azerbaijani announcement that Baku and Tehran had agreed to the “median line” demarcation, which extends national borders to the middle line of the sea, giving Iran less than the one-fifth share it demands.<sup>10</sup>

While the Araz field holds but a small fraction of the total deposits in the sea, Iran's action threatens all Caspian basin energy enterprises. U.S. and multinational oil companies have invested billions to develop the Caspian resources and are involved in a number of consortia in the region. This energy development has occurred without intervention from Iran in the past.

Iran's military action against an international company, and its intransigence on maritime border issues, endanger the ability of companies like BP–Amoco to explore the Caspian basin for oil and therefore threaten U.S. investments. (See Table 3.) A threat to current or future oil supplies could drive up prices and scare off investors. Oil companies active in the region may decide to forgo explora-

tion and therefore revenue—a sizeable sacrifice if the global economy recovers or demand starts rising because of anti-terrorist military actions. At stake are over 200 billion barrels of oil with a current market value of more than \$5 trillion, as well as trillions of cubic feet of natural gas. (See Table 2 and Table 3.)

The Iranian action is particularly troubling in that it targeted a field explored by a major U.S.–British international oil company as well as companies from Norway (Statoil), Azerbaijan (SOCAR), and Turkey (TPAO). Iran has not, however, targeted any Russian or Arab interests. It is also significant that the attack came during the final stages of planning for construction of the strategically important Baku–Tbilisi–Ceyhan pipeline, which will make Turkey (not Iran) the main outlet for Caspian oil. The pipeline would reduce Iran's control over oil exported from the Caspian.

Iran also is carefully expanding defense ties with Armenia, a country technically at war with Azerbaijan. With Iranian instigation, Armenia would be capable of disrupting and threatening the Baku–Tbilisi–Supsa and future Baku–Tbilisi–Ceyhan pipelines, since a part of their route is located less than 30 miles from the Armenian–Azerbaijani ceasefire lines.

Until Iran ends its support for terrorism, and its bullying, it should not be invited to participate in resource-sharing agreements in the Caspian beyond its territorial waters. The latest round of Iranian muscle-flexing endangers billions of dollars already invested in Caspian energy projects and could discourage billions more in future investments.

7. Lelyveld, “Russia: Iran Seeks Assurances on Caspian Division.”

8. “Storm in the Precious Teacup,” *The Economist*, August 2, 2001, at <http://www.globalpolicy.org/security/natres/oil/centralasia/2001/0802casp.htm>.

9. “Iran to Defend Rights in Caspian Rumpus,” *OGN Online*, Vol. 19, No. 33 (August 26 – September 1, 2002), at <http://www.oilandgasnewsworldwide.com/News.asp?Article=6146>.

10. Michael Lelyveld, “Caspian: Azerbaijan, Iran Seek New Phase in Border Dispute,” *Radio Liberty–Radio Free Europe*, June 18, 2002, at <http://www.rferl.org/nca/features/2002/06/18062002165038.asp>. See also Ariel Cohen, “Iran's Intentions on Caspian Issue Remain Unclear Following Azerbaijani Leader's Visit,” *EurasiaNet.org*, May 22, 2002, at <http://www.eurasianet.org/departments/insight/articles/eav052202.shtml>.

## IRAN DISPUTES LEGAL STATUS OF CASPIAN SEA

Iran has disputed not only the maritime and seabed boundaries demarcating its sector of the Caspian Sea, but also the sea's legal status since the collapse of the Soviet Union. The dispute focuses on the question of whether the Caspian is a sea or a lake and has implications for both the applicability of the U.N. Convention on the Law of the Sea and negotiation of the boundary demarcation regime affecting the littoral states' rights to significant oil deposits.<sup>1</sup>

The Caspian Sea is the largest body of salt water on Earth with no natural connection to the ocean. Land borders between Iran and the Russian Empire–USSR were delineated and demarcated in the 19th century and remained unchanged until the Soviet Union collapsed in 1991. However, under 1921 and 1940 treaties between communist Russia and Iran, sea and seabed boundaries were not established.<sup>2</sup> Moreover, those treaties defined the rules for shipping and fishing, not for oil or gas exploration. The USSR was able to explore the Caspian Sea for oil without interference from Iran.<sup>3</sup> According to experts like Professor Bernard Oxman, the treaties also prohibited Iran from deploying naval assets in the Caspian Sea.<sup>4</sup>

After the Soviet Union's collapse, the regime allowing unhindered oil exploration applied to

the USSR's successor states in the region—Russia, Azerbaijan, Kazakhstan, and Turkmenistan. These countries are involved in peaceful negotiations to determine the maritime boundaries for their sectors of the seabed. Most legal scholars agree that a combination of customary international laws of the sea and rules regulating lakes should guide decisions regarding the Caspian's maritime boundaries.<sup>5</sup> They base their determination on decisions made by the International Court of Justice regarding the boundaries of Lake Constance between Germany and Austria and in the Bay of Fonseca in the Pacific Ocean.

Iran's long-recognized sector of the Caspian Sea covers 12 percent to 14 percent of its surface area. The collapse of the USSR has changed neither the size nor the status of the Iranian sector. However, Iran now demands either a condominium (or joint sovereignty) that would allow it to claim equal proceeds from all energy developed at the sea bed, regardless of its investment in that development,<sup>6</sup> or the expansion of its sector to at least 20 percent of the surface area and seabed. That territory includes part of the oil-rich Azerbaijani sector. Many legal scholars agree that Iran's claims are backed by neither legal precedent nor law.<sup>7</sup>

1. Energy Information Administration, "Caspian Sea Region: Legal Issues," July 2002, at <http://www.eia.doe.gov/emeu/cabs/casplaw.html>.
2. Theodore C. Jonas, Esq., "'Parting the Sea': Caspian Littoral States Seek Boundary Disputes' Resolution," *Oil and Gas Journal*, May 28, 2001, p. 66.
3. For detailed treatment of the legal aspects, see Bernard H. Oxman, Professor of Law, University of Miami School of Law, "Caspian Sea or Lake: What Difference Does It Make," *Caspian Crossroads*, Vol. I, No. 4 (Winter 1996), at <http://www.usazerbaiancouncil.org>.
4. *Ibid.*
5. Jonas, "'Parting the Sea,'" and Oxman, "Caspian Sea or Lake: What Difference Does It Make."
6. BBC News, "Azerbaijan Protests Over Iranian Ship Interception."
7. See, for example, Brice M. Clagett, Esq., "Ownership of Seabed and Subsoil Resources in the Caspian Sea Under the Rules of International Law," *Caspian Crossroads*, Vol. I, No. 3 (Fall 1995).



## RUSSIA'S EQUIVOCATING POLICY ON IRAN

During Iranian Deputy Foreign Minister Alhani's hasty visit to Moscow in August 2001, the two countries reiterated that the Soviet–Iranian treaties signed in 1921 and 1940 remain in place.<sup>11</sup> (See text box, “Iran Disputes Legal Status of Caspian Sea.”) Iran also remains an important buyer of Russian arms and military technology.<sup>12</sup> Their relationship was buoyed under former Prime Minister Evgeny Primakov, who saw Iran as a potential partner in Moscow's efforts to offset the influence of the United States in Central Asia and the Middle East. And both Moscow and Tehran have reason to try to block any trans-Caspian oil and gas pipelines that would go in an east–west direction, bypassing their territory.<sup>13</sup> However, each would prefer diverting the energy flows either north or south to their own respective territory, creating a level of competition between them for those resources.

Russia is also now a part of the U.S.-led anti-terrorism coalition. At the August 2001 summit of leaders of the Commonwealth of Independent States (CIS), President Vladimir Putin called the land-locked Caspian “the sea of peace and tranquility” and the Iranian use of force in the Caspian “impermissible.”<sup>14</sup> His rapprochement with the United States and its European NATO allies in the war against terrorism signaled that the Kremlin would continue a multi-vector policy, remaining friendly to the West and multinational oil companies while attempting to direct the flow of Caspian oil and gas to its pipelines.

Some Moscow energy analysts believe that Russia—a country saddled with a large national debt

where energy exploration is costly—would fare better in a tight energy market with oil prices above \$20 per barrel. Former Russian Energy Minister Sergey Generalov believes this price is the point at which exploration in the Caspian Sea becomes profitable.<sup>15</sup> Plans to expand the north–south transportation corridor between Europe and the Persian Gulf and to route Caspian oil through Russia and Iran could mean hundreds of millions of dollars in oil transit revenue for those two governments.<sup>16</sup>

The Kremlin faces a real dilemma following Iran's use of naval power in the Caspian Sea last year. It must decide whether to side with the West and Azerbaijan, its CIS ally, or with its arms customer, Iran. Maintaining an equivocating policy will only encourage Iran's intransigence, which would threaten the flow of future foreign investments in Caspian Sea exploration and production.

As U.S.–Russian ties develop, the Kremlin has done little to allay Tehran's fears that the condominium hinted at by Presidents Putin and Khatami in March will turn out to be short-lived. At the same time, Russia has not fully supported the position of its CIS allies; it did not endorse, for example, Azerbaijani President Aliiev's statement that the post-Soviet Caspian littoral states should negotiate among themselves while excluding Iran.

In October 2001, Iranian Defense Minister Admiral Ali Shamkhani signed a multibillion-dollar contract with Russia for a supply of sophisticated weapons to Tehran.<sup>17</sup> This may further Russia's interest in engaging Iran as a potential strategic partner and keeping tensions in the region simmering, even though a 1995 secret agreement signed by then-Russian Prime Minister Victor Chernomyrdin

11. Lelyveld, “Russia: Iran Seeks Assurances on Caspian Division.”

12. Ariel Cohen and James Phillips, “Russia's Dangerous Missile Game in Iran,” Heritage Foundation *Executive Memorandum* No. 503, November 13, 1997.

13. A. P. Guzhvin, “Dlia kogo-to Kaspii – bol'shaya igra, dlia astrakhantsev – zhishn” (For some the Caspian is a Great Game, for Astrakhanites it is life itself), *Neftegazovaya Vertikal'*, No. 4 (April 1998), pp. 22–25.

14. Michael Lelyveld, “Russia: Moscow May Intervene in Caspian Dispute,” Radio Liberty–Radio Free Europe Newline, August 3, 2001, at <http://www.rferl.org/nca/features/2001/08/03082001113745.asp>.

15. Georgy Osipov, “Neft' vpadaet v Kaspiyskoye More” (Oil flows into the Caspian Sea), *Segodnya*, No. 167 (August 1, 2000), at [http://www.segodnya.ru/w3s.nsf/Archive/2000\\_167\\_econom\\_text\\_osipov1.html](http://www.segodnya.ru/w3s.nsf/Archive/2000_167_econom_text_osipov1.html).

16. Leonid S. Severtsev, “Rossia–Iran: Druzhiba Navek?” (Russia–Iran: Friendship Forever?), *Dipkurier Internet*, at [http://world.ng.azimuth/2001-04-05/5\\_friendship.html](http://world.ng.azimuth/2001-04-05/5_friendship.html).

17. “Russia, Iran to Step Up Military Cooperation,” Agence France-Presse, October 5, 2001, at <http://www.djinteractive.com>.

and U.S. Vice President Al Gore called for limiting advanced arms sales from Russia to Iran.<sup>18</sup> Putin renounced that agreement in fall 2000.<sup>19</sup>

The relationship developing between Russia and Iran is similar to the Sino–Russian attempt to construct a condominium in Central Asia with the June 2001 “Shanghai Six” agreement and the July 2001 Sino–Russian Treaty of Friendship. Moscow also was not happy with the demonstration of air power exhibited by Turkey on August 23, 2001, when 10 F–16s accompanied Turkish Chief of Staff General Hussein Kivrikoglu on a visit to Azerbaijan.<sup>20</sup> The old Soviet and Primakov-era paradigms were based on the principle that it was in the interests of Iran and Russia to keep the United States and Turkey from expanding their influence in the area; but Russia now is positioned on the side of the United States and the antiterrorism coalition, and growing Turkish–Russian economic ties are helping to alleviate their historic rivalries. Turkey will be a major customer of the Russian gas company, Gazprom, when it starts receiving natural gas through the Blue Stream pipeline across the Black Sea.

Thus, Russia is attempting to juggle complex and often competing interests in this key geo-economic Caspian region. It wants to remain the predominant military power there and has begun flexing its muscles. For example, it has boosted the capabilities of its Caspian flotilla even while allowing the rest of the Russian Navy to deteriorate. The flotilla conducted live-fire maneuvers during Putin’s visit to Baku in February 2001, a demonstration of gunboat diplomacy predating Iran’s actions in the Caspian by six months.<sup>21</sup>

In May 2002, following a summit of Caspian states in Ashgabat at which Turkmenistan failed to produce an accord on dividing the sea’s resources, President Putin ordered Russia’s army, air force, and

Caspian fleet on the largest maneuvers in the area in post-Soviet history. These maneuvers were conducted in August 2002 and involved 60 surface ships, 30 aircraft, and 10,000 troops. Russian, Azerbaijani, and Kazakhstani forces have participated.<sup>22</sup> The exercise may be the strongest signal thus far that Russia will attempt to assert its own geopolitical interests in the energy-rich region. The maneuvers spread along the whole northern and central sections of the Caspian Sea and included combined operations and simulated interaction between the Caspian Fleet, the Caucasus Military District, and possibly elements of the newly created Urals military district.<sup>23</sup>

Internal CIS *Realpolitik* would appear to dictate that the Kremlin would protect its allies, even against Iran, while discouraging them from turning to the West. Its allies will judge Moscow based on its ability to guarantee stability to allow the effective demarcation of the Caspian Sea sectors. Significantly, Washington’s growing interest in the Azeri–Iranian conflict could lead Moscow to seek U.S.–Russian consultations, even cooperation, to ease tensions in the region.

## ASSURING PEACE IN THE CASPIAN REGION

The war against terrorism necessitates the protection of U.S. energy and security interests. The provocative actions by Iran against a U.S.–British international oil company exploring the Caspian basin jeopardize those interests. Iran is a state supporter of terrorism whose oil revenues are bolstering its ballistic missile and weapons of mass destruction programs. In order to keep the peace in the Caspian region and protect Western investments as well as access to vital energy resources, the Bush Administration should:

18. Severtsev, “Rossia-Iran: Druzhba Navek?”

19. “USA Mulls Imposing Sanctions Against Russia,” *Pravda Online*, November 23, 2000, at <http://english.pravda.ru/main/2000/11/23/1094.html>.

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- **Call for the demarcation of the Caspian Sea territorial boundaries along the “median line” proposed by all CIS states.** A senior U.S. foreign policy official should issue a statement calling for peace and security in the Caspian region and warning Tehran to refrain from using military force to threaten energy exploration projects in the other sectors. Such a statement also should promote the rapid and commercially viable development of Caspian energy resources based on current and future production-sharing agreements.
- **Seek a U.N. Security Council resolution calling for the peaceful settlement of Caspian Sea disputes.** In this context, the Administration should seek support from U.S. allies in Europe, particularly Great Britain, which with its European Union allies (such as France and Germany) also should demand that Iran refrain from any and all use of force. President Bush should ask President Putin, who has called for the peaceful settlement of claims in the Caspian Sea, to involve Moscow in the drafting of the U.N. resolution.
- **Expand Azerbaijan’s military capabilities through its ties with NATO and the Partnership for Peace (PFP).** Azerbaijan would benefit from the expertise of NATO and others in learning how to strengthen its capabilities to protect its own borders. Programs may be undertaken under the PFP umbrella and could include developing an integrated military–civilian air traffic control system; developing and training its coast guard and border guards; upgrading its command, control, communications, and intelligence (C3I) systems to NATO standards; and developing military interoperability with NATO. Azeri officers, especially border guards and coast guard–navy officers, should be invited to train at NATO war colleges, especially in Turkey since they would face little to no language barrier.
- **Expand political and economic ties with Armenia.** The Armenian military is capable of disrupting the flow of oil from the Caspian Sea to ports on the Black Sea and the Mediterranean. Though the Bush Administration was correct in sanctioning Armenian companies for smuggling military and dual-use technology to Iran, Armenia now feels isolated, and its government is moving toward closer ties with Iran. The United States should work to expand relations with Armenia in economic and security areas in order to deny Iran an important ally in the Caucasus region.

## CONCLUSION

Energy development in the oil- and gas-rich Caspian Sea basin would help ensure energy security, a key issue in the war against terrorism. It also would promote the independence and economic development of post-Soviet states in that region. But Iran’s gunboat diplomacy last year could threaten energy development by deterring foreign investment. The United States should call on Iran to stop its aggressive behavior, and it should mobilize its allies to work for a peaceful settlement of the territorial disputes over the maritime borders of the states bordering the Caspian Sea.

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