

# Azerbaijan and Turkmenistan's Dispute over the Caspian Sea

## Will It Impede the Nabucco Project?

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*Anar Valiyev*

*Azerbaijan Diplomatic Academy*

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### **A Surprise Statement**

On July 24, 2009, Turkmen president Gurbanguly Berdimuhamedov convened a special session of the government to discuss issues related to ownership of the Caspian oil and gas fields. At the meeting, Deputy Foreign Minister Toyly Komekov discussed the results of recent talks with Azerbaijan on dividing the Caspian Sea: despite Turkmenistan's efforts to reach an agreement, no consensus could be achieved. Berdimuhamedov underlined that Azerbaijan has long been developing the disputed Omar and Osman (Azeri and Chirag) oil and gas fields and has also laid claim to the Serdar (Kyapaz) field. After the meeting, the Turkmen president instructed Vice Premier Rashid Meredov to commission a study on the legality of Azerbaijan's claims and submit the findings to international arbitration.

Berdimuhamedov's statement was a surprise to Azerbaijani authorities and the public. For the last year, Turkmenistan and Azerbaijan have worked to improve their relations, and Baku had hoped that common energy interests would help make the states good neighbors and spur cooperation. Only a few weeks earlier, the president of the State Oil Company of the Azerbaijani Republic (SOCAR), Rovnag Abdullayev, visited Ashgabat, where both sides expressed their commitment to the further cultivation of friendly relations. Still, Berdimuhamedov's July 24 comments would probably not have been so significant had they not coincided with several other regional developments, namely the intensification of the Nabucco project, Russian-Turkish rapprochement, and the militarization of the Caspian Basin.

## Azerbaijani-Turkmen Relations

Since the collapse of the Soviet Union, relations between Azerbaijan and Turkmenistan have undergone significant and rapid shifts, ranging from cordial statements to high-level accusations. Former Turkmen president Saparmurat Niyazov visited Baku in March 1996, laying the ground for the development of mutually beneficial relations. In 1997, however, Niyazov accused Azerbaijan of illegally exploiting the Azeri and Chirag oilfields, and threatened to sue the oil companies involved. That same year, pressure by Turkmenistan caused Russian companies Rosneft and Lukoil to withdraw from a project to develop the Kyapaz oilfield. At the same time, a consortium of foreign oil companies led by the Bechtel Corporation proposed the construction of a Transcaspian gas pipeline to transport Turkmen gas to Turkey through Azerbaijan. In the absence of any significant gas reserves of its own, Azerbaijan's role was going to be one only of transit. The discovery of Azerbaijan's Shah Deniz gas field, a chill in relations between Niyazov and Azerbaijani President Ilham Aliyev, and disagreement on quotas for the future pipeline frustrated this ambitious project. Bilateral relations continued to deteriorate, culminating in July 2002 with the explosion of the Azerbaijani tanker *General Shikhlinskiy* in the Turkmen port of Turkmenbashi, killing six Azerbaijani sailors.

Niyazov's death in 2006 heralded the start of a new era in Turkmen-Azerbaijani relations. Both sides rededicated themselves to overcoming the legacy of enmity and renewed efforts at cooperation. Berdimuhamedov's visit to Baku in May 2008, when the two presidents discussed prospects for developing Azerbaijani-Turkmen relations, marked a key turning point. Ahead of the Turkmen president's visit, Azerbaijan repaid \$44.8 million in debt, owed to Turkmenistan since the early 1990s for gas supplies.

## Nabucco and Transcaspian Pipelines

Many expected that the proposed Nabucco pipeline, designed to connect Caspian gas fields to Europe through Turkey, would provide a natural point of alliance and cooperation for Turkmenistan and Azerbaijan. However, differences between the countries persist, especially with regard to Nabucco's reputation as an "anti-Russian" project.

Nabucco is intended to promote energy independence for Central and Eastern Europe and potentially diminish Russia's dominant role in their energy markets. From the first days of Nabucco, the Russian government sought ways to oppose the project. In recent years, these efforts shifted in a positive direction to highlighting the benefits of forgoing participation in Nabucco. In 2007, Russia and Turkmenistan proposed a Caspian gas pipeline that would bring gas from Turkmenistan and Kazakhstan north to Russia, using gas intended for Nabucco. For the gas, Russia would pay "European" prices instead of the lower prices that had been enabling Gazprom to make a profit exporting Russian gas to European customers while it used Central Asian gas for its own domestic needs. In May 2008, Russian president Dmitri Medvedev went on to propose purchasing all Azerbaijani gas intended for Nabucco at these same higher prices.

The global financial crisis and the sudden plummeting of energy prices has forced

Gazprom to change its plans, however. In fall 2008, Gazprom said that it would not construct the planned Caspian pipeline, relying instead upon existing gas transit routes. Uncertainty about Gazprom's promises and the desire to sell gas at a higher price led Turkmenistan to revisit its relations with Azerbaijan. Kazakhstan, too, began to look to Azerbaijan as a possible transit country for exporting gas to Europe.

In order to speed up the Nabucco project, the presidents of Azerbaijan, Turkmenistan, and Turkey met in Turkmenbashi in November 2008. The sides signed a memorandum creating a sea-rail link meant to increase trade with Europe.

### **Azerbaijan Frustrates the Transcaspian Project?**

The Turkmen government's announcement about international arbitration was a surprise for Baku. Before it was made, there were no reasons to suspect a deterioration in Turkmen-Azerbaijani relations. Both sides had even spoken about soon settling all remaining Caspian disputes.

Analyzing the foreign policies of Turkmenistan and Azerbaijan, it is easy to see that both countries are moving in different directions rather than approaching a common position. For years, Baku tried to initiate and implement gas projects bypassing Russia while receiving no support from the European Union or Central Asian suppliers. Since the Russian-Georgian war, however, Azerbaijan has slowed down its participation in regional projects, fearing Russian retaliation. Meanwhile, hoping to resolve the conflict over Nagorno-Karabagh and surrounding territories, and perceiving a new Russian willingness to help do so, Baku has tried to not irritate Moscow with talk of Nabucco. Carefully observing the energy policy of the EU, Azerbaijan has pursued a more reactive than proactive policy.

In contrast, after Niyazov's death and Russia's failure to pay a fair price for gas, Turkmenistan intensified negotiations with the EU and Azerbaijan regarding participation in the Nabucco and Transcaspian projects. Fearing that Baku could sacrifice Nabucco and the Transcaspian pipeline for dividends in negotiations over Karabakh, Turkmenistan is trying to push the Azerbaijani government into making bold new steps. The Turkmen statement may thus have been designed to send a signal to Baku to intensify support for the two pipeline projects.

### **Russia Strikes Back**

It is also possible, however, that Turkmenistan's demarche was orchestrated by Russia. Two weeks before Berdimuhamedov's statement, the leaders of Hungary, Bulgaria, Romania, Turkey, and Austria signed a multilateral agreement on the Nabucco project in Ankara stipulating the legal framework for the construction and operation of the Nabucco pipeline. Russia, seeing Nabucco go forward and hoping to diminish its potential supply base, could be preparing to accede to Turkmenistan's demands for a higher purchase price for its gas. In this context, the Turkmen threat to take Azerbaijan to court could have been intended to forestall any further development of the Transcaspian pipeline project and, hence, to create new doubts as to the feasibility of Nabucco. To reinforce the belief that Nabucco is dead on arrival, Russian Prime Minister Vladimir Putin made a blitz visit to Turkey where he signed an agreement on energy cooperation. In addition to his official talks, Putin lobbied for a new pipeline

project through Turkey, taking into account Bulgaria's recent hesitation over the South Stream pipeline scheduled to pass through its territory. Turkmenistan's demarche made it easier for Putin to persuade Turkey to rely more on Russian rather than Central Asian gas.

### **Further Steps**

Many experts in Baku believe Turkmenistan's claims to the fields are groundless and, hence, that Azerbaijan will prevail in the event of arbitration. In 1997, Turkmenistan also threatened the Azerbaijani government with lawsuits but never followed through. With the interests of so many states involved in the development of Azerbaijani oilfields, Turkmenistan would likely have lost its case.

Significantly, the Turkmen statement initiated not only another round of painful negotiations and mutual accusations, but also heightened the militarization around the Caspian. At the end of August, Berdimuhamedov announced the establishment of a naval base and coast guard for the Caspian Sea. Turkmenistan's decision to establish a base threatens to aggravate political differences and increase mistrust with neighboring states. Azerbaijan has already had one sea-based military dispute with Iran in 2000, when an Iranian military ship threatened an Azerbaijani research vessel, prohibiting it from conducting exploration work on an oilfield claimed by Tehran. Turkmenistan was the only country in the Caspian Basin that did not have a naval force. Now, with active militarization, an arms race, and indefinite status for the Caspian Sea and disputed oil and gas fields, the possibility of armed conflict can no longer be relegated to fiction.

### **Conclusion**

While Turkmenistan and Azerbaijan are fraternal nations, years of mutual rivalry, misunderstanding, and enmity cast a shadow on their relations. Azerbaijan is more open to the West and closely cooperates with NATO and the EU, while Turkmenistan maintains close ties to Russia. Recent efforts by Berdimuhamedov to open Turkmenistan's economy to outside investment will help the country break its dependence on Russia. In this context, Azerbaijan could serve as a bridge for Turkmenistan. If both states continue to mistrust each other and even threaten to enter into conflict, however, then both will lose the chance to break with their past and be doomed to spend their fortunes on arms instead.

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