

Russia's Caspian Policy Under Primakov

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This memo addresses the general prospects for Russia's policy in the Caspian Sea, particularly in light of the ongoing financial crisis and domestic political turmoil. After touching on uncertainties regarding the Caspian's significance as a source of hydrocarbon reserves, I will consider Russia's evolving policy preferences and diplomatic relations, environmental issues, and the broader political context.

Caspian Uncertainties

Euphoric expectations for the Caspian energy bonanza have been scaled back in the past year. Recent developments include the low price of oil, doubts about the actual quantity of reserves (due to dry wells or gas hits), and the possible emergence of investment opportunities in Saudi Arabia. These are combined with longstanding concerns about securing reliable exit routes given the region's political volatility and high degree of seismic activity. Some international projects have been placed on hold and some planned investments suspended. Yet while such uncertainties may ultimately affect Russian calculations, at present all indications point in the other direction. Rather than reducing oil production Russia has redoubled its commitment to export, and leading firms have announced their intention to focus on foreign sources due to structural and infrastructural problems in Russia. From this perspective the Caspian is a bird in the hand, and given the prevailing short time-horizon, a narrow profit margin is better than no margin at all.

Priorities, Constraints, and Moscow's Bilateral Ties

In the past year Russia's Caspian policy has been marked by the triumph of a pragmatic line. In contrast to the earlier official policy of attempting to block the independence of the former Soviet states and control energy resource extraction and transportation, the new line focuses mainly on seeking profitable forms of cooperation. Economic coercion and veiled military threats--though still in evidence--are resorted to with less frequency. This development reflects the hopelessness of the earlier geopolitical policy, due to Russia's twin weaknesses: domestically, the ability of regional elites to thwart the boycott and blockade policy; and regionally, changing identities and the unfavorable balance of power. The recent collapse of the ruble and attendant fragility of the Russian Federation are likely to reinforce this trend for the foreseeable future.

With regard to the ongoing legal dispute over ownership, the Russian government changed its position in late 1997. It now proposes that the Caspian's subsoil resources be divided, with the water column and surface jointly owned by all the littoral states. Such an approach appears acceptable to Iran, although it may well be rejected by Azerbaijan and Turkmenistan since common ownership of water implies a legal obstacle to freely laying pipelines on the Caspian floor. Moscow is vehemently opposed to any trans-Caspian pipeline, which would allow Turkmenistan and Kazakhstan to avoid transporting oil and gas across Russian territory. Indeed, with this key exception, Russia continues to endorse the principle of multiple pipelines--with the understanding that this would include the route to Novorossiisk and Tuapse on the Black Sea.

More certain to raise objections is the Russian proposal (broached in summer 1998 in discussions with Iran) to divide the seabed equally into 20% blocs. This stance contradicts proposal by Kazakhstan and Azerbaijan to divide the seabed according to the median line, in which case Russian oil and gas deposits would be minimal. Official negotiations on the legal issue have been postponed twice because of Russia's economic difficulties, and are now scheduled for mid-November. Regardless of the precise outcome, Russia's bargaining position is likely to be characterized by flexibility, perhaps involving a willingness to trade off demarcation of the median line in exchange for transportation concessions and increased participation of Russian firms.

This pragmatic policy involves maintaining a close partnership with Iran. After a brief period of friction early in 1998, Moscow has reached agreement with Teheran on legal partition as well as environmental concerns, and has continued to assist Iran in acquiring nuclear energy. Russian Prime Minister Yevgeniy Primakov and Executive Secretary of the Commonwealth of Independent States (CIS) Boris Berezovskii have called for incorporating Iran within the CIS itself, an idea which has been eagerly endorsed by anti-American elements, including such prominent figures such as Duma Speaker Gennadii Seleznev and the ultranationalist Vladimir Zhirinovskii.

With regard to the other littoral states, the trend in Russian policy has been toward cultivating even-handed relations. With Kazakhstan, agreement has been reached on demarcation of the north Caspian and a final timetable for construction of the CPC pipeline. Increasingly, cooperation is broached with Azerbaijan as well. This includes carrots: agreements to regulate customs and tariffs, some movement in bilateral negotiations on the legal dispute, endorsement of an OSCE statement affirming Azerbaijan's territorial integrity, and offers to increase the capacity of the Baku-Novorossiisk pipeline. In the aftermath of Gaidar Aliev's reelection, at a moment when the Ceyhan route appeared to be losing favor with oil companies, a group of leading Russian politicians traveled to Baku to offer congratulations and to plug the northern route.

Yet the stick remains clearly in evidence: passage through the Volga-Don system is still denied to Azerbaijani flagships. Finally, Turkmenistan occupies a more ambiguous position for Russian policy. Ashkhabad has steadily moved to diversify pipeline access through Kazakhstan, Iran, Pakistan, and across the Caspian Sea to Azerbaijan and Turkey. Its efforts to do so are spurred by Gazprom's continued refusal (since Spring 1997) to allow Turkmen gas into its network. Here it is important to understand that

Gazprom retains enormous political leverage by virtue of its pivotal position in the intertwined problems of tax collection and inter-firm debt. Yet it would be simplistic to equate the company's crude monopolistic position with official policy, and indeed such pressure tactics are increasingly out of step with Moscow's diplomatic posture. It is noteworthy that the Ministry of Transport has recently made overtures to Turkmenistan for transportation of oil to the Russian ports of Astrakhan and Makhachkala.

In contrast, Georgia and Turkey are viewed by the federal government essentially as competitors for key pipelines. For this reason Russian policy continues to rely on support for rebel movements in both countries (Abkhazia and Ajaria in Georgia, and the PKK in Turkey and the neighboring states), and has tilted strongly towards Greece in the Cyprus conflict.

Thus, Russia's Caspian policy may be characterized as increasingly malleable and adroit. Although it is still very early in Yevgeniy Primakov's stewardship, given the former Foreign Minister's style, Moscow's approach is likely to feature a judicious mixture of carrots and sticks, but its overall thrust will continue to be geared towards increasing Russian involvement in energy projects.

The "Environmental Card"

Statements regarding the importance of environmental protection continue to be raised in negotiations. However, as in the past, such statements reveal a combination of genuine and instrumental concerns. To a great extent the Russian government's emphasis (under Chernomyrdin, Kirienko, and Primakov alike) on preventing ecological disaster is linked to its adamant rejection of the trans-Caspian pipeline proposal. Thus, while Russian demands for common ownership of all water resources are conveniently justified on environmental grounds in the Caspian, no such principled objections are raised over Gazprom's planned Blue Stream pipeline to Turkey under the Black Sea.

And yet environmental worries are often sincere, even at the federal level. Fisheries and coastal communities remain a concern of the state. The major international organizational effort to launch a Caspian Environmental Program (sponsored by the GEF, UNDP, UNEP, the World Bank, and TACIS) has received support from the Russian State Committee for the Environment. Prosecutor General Iurii Skuratov rejected as illegal the Russian government's tender of an offshore field, arguing that it violated a 1975 Soviet law declaring the north Caspian a nature preserve. Moreover, the hackles of right- and left-wing extremists are raised by the prospect of oil and gas magnates exploiting the wealth of the Caspian--in conjunction with Western multinational companies--at the expense of ordinary Russians. The Duma Ecology Committee has attempted to block construction of the Caspian Pipeline Consortium's route from Tengiz to Novorossiisk due to its detrimental effect on the Black Sea environment, and therefore its threat to health resorts and local employment. Nevertheless, the combined opposition of extractive, financial, and industrial elites ensures that energy development will continue, with or without environmental safeguards in place.

Russia's Domestic Weakness

Russia is saddled with a number of significant weaknesses in competing for inclusion in energy development projects. First, the domestic costs of transportation are exceptionally high, due to inefficient existing infrastructure and high carrier surcharges (Transneft has announced an increase in transit fees, partly in response to higher fees exacted by regional authorities). Uncompetitive cost may become an increasing liability as alternate routes become operational. Second, there is a desperate shortage of investment capital for funding new pipeline construction and terminal expansion. Third, serious uncertainties exist concerning final outlets and markets following export from Russia's Black Sea ports. The Turkish straits may be excessively congested (and may at some point have strict passage regulations), while other routes (including via Ukraine, Bulgaria, and Romania) are of questionable cost-efficiency. Likewise, the possibility of a route north through Russia (Volgograd to St. Petersburg) is riddled with economic and political doubts.

Furthermore, the ongoing process of devolution of political authority to the provinces weakens the federal government's international negotiating position, and thereby hinders Russia's ability to gain new contractual agreements. Even the existing routes through Chechnya and Dagestan are of dubious reliability given the political turmoil in both regions. It is worth noting that the CPC line was delayed in part due to bargaining for transit fees on the part of regional administrations in Krasnodar, Astrakhan, and Stavropol. In addition, authorities in Saratov recently signed an agreement with Azerbaijan for shipment of cargo that contradicts the central government's policy regarding access to the Volga. In this context, even speaking of "Russia" as a whole may be a misnomer.

TRACECA, the Main Export Pipeline, and Russian Marginalization

Against the backdrop of energy uncertainties and the Caspian's diminished attractiveness, the non-energy aspects of regional development loom commensurately larger. And yet at the same time Russia finds itself isolated. The recently initialed TRACECA accord avoids Russian territory, while offsetting investments in transportation and telecommunications have not been forthcoming. This forms an inextricable part of the political climate in which the Caspian region is viewed. Meanwhile, Russia's failure to win the coveted Main Export Pipeline from Baku signals further lost opportunities for trade and investment. The combined result, as Russia's beleaguered liberals lament, is that the prospects for international integration have waned. Pragmatically inclined major enterprises are also disappointed with this outcome, including EES (which wishes to renovate the integrated electric grid in Georgia) and Lukoil (which hopes to transport oil across Georgian territory and open a large network of gas stations). Consequently, important constituencies which have an interest in meeting President Shevardnadze's security demands see their positions undercut by the international political process.

The United States, NATO Expansion, and the Caspian

For years there has been a tendency to view Caspian developments in terms of zero-sum competition between Russia and the United States. This tendency has increased with the worsening of Russia's political and economic position. NATO expansion, generally seen as an extension of American military power, is inseparable from general calculations concerning the Caspian: it underlines the importance of "spheres of influence," and thereby magnifies the negative implications of US economic involvement. Thus, US Secretary of Energy William Richardson's offer to negotiate a settlement between Turkmenistan and Azerbaijan, so as to resolve the delimitation issue and gain agreement on a trans-Caspian oil pipeline, was widely condemned by Russian political observers as arrogant, hegemonic, and attempting to capitalize on Russia's weakness.

It is important to recognize that NATO expansion is not seen by many influential Russians as either closed-ended or restricted to Eastern Europe, but rather as an ongoing process involving the Caucasus and Central Asia as well. This includes military exercises conducted by the US and Partnership for Peace in the Black Sea ("Sea Breeze") and Central Asian ("Centrazbat") regions, and Secretary-General Javier Solana's recent tour of the Caspian (which drew worrisome statements about proposed cooperation from leading officials in Georgia, Azerbaijan, and even Armenia).

To be sure, many liberals and pragmatists are unconcerned by NATO-led exercises, seeing them as non-threatening, low-cost means of promoting regional stability. Yet such views are clearly in the minority. The prospect of Azerbaijan and Georgia becoming full members of--or even inviting collaboration with--NATO raises fears for the security of Russia's southern borders. For extremists, this poses the specter of direct intervention, perhaps to ensure access to pipelines. More importantly, for the middle of the political spectrum the expansion of NATO's presence involves an indirect threat. According to this logic, NATO maneuvers on the border both symbolize and advertise Russia's weakness, and therefore encourage separatist movements in the region: Dagestan, Ingushetia, Tatarstan, Bashkortostan, and possibly further afield. More generally, the incursion of NATO and US forces is seen as usurping Russia's political and economic role, including Russia's ability to participate fully in the division of Caspian spoils.

Conclusions and Prescriptions

- Russia maintains a profound national interest in the Caspian Sea, for a combination of pragmatic and symbolic reasons. Moscow's policy, while competitive, is potentially amenable to even-handed cooperative ventures. The current crisis temporarily distracts from, but does not fundamentally diminish Russian economic and political objectives in the region.
- A trans-Caspian pipeline should be avoided for both political and environmental reasons. Otherwise, the prevailing principle of "multiple pipelines" should be implemented across the board, including Russian and Iranian routes. Endorsing a

- trans-Caspian line, and attempting to exclude Iran as a transportation option, will lead to continued Russian-Iranian cooperation--directed largely against the US.
- Russia's exclusion from TRACECA inflames aggressive nationalists while weakening pragmatists and liberals. It would be advisable to encourage integration tendencies, possibly by investing in Russian infrastructure (e.g., roads, bridges, rail switching yards), which might help promote entrepreneurial initiatives and follow-on foreign investment.
 - Effort should be made to avoid further provoking Russia, while at the same time not capitulating to Russian pressure. In expanding regional military exercises for security and police purposes, regional organizations (such as the OSCE) might be used to better effect.

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