

SEA OR LAKE : A MAJOR ISSUE FOR RUSSIA

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The Russian Federation inherited only a small segment of the Caspian Sea - or rather lake. Russia has equally lost the economic supremacy over the Caspian, where the development of the off-shore oil extraction needs both Western capital and technology. The paradox Moscow faces is how to keep its political domination, while at the same time solicit economic collaboration with American, British or Japanese oil companies. To what extent can it collaborate with Azerbaijan and Kazakhstan in the energy sector, two former Soviet states which compete with Moscow over the partition of the Caspian, without losing its influence over them? And, how will the oil projects interact with the political/military partition of the region, and influence the outcome of the existing conflicts? These struggles will determine not only the future political and economic system around the Caspian, but also much of the ruling patterns in Moscow, Baku, Almaty and other capitals of the region.

This body of water - that separates the sandy deserts of Central Asia in the east from the Caucasian chain to its west, the dry steppes in the north from the Elburs mountains in Persia - has long attracted the attention of the Russians. Astrakhan¹ Khanate was destroyed by Ivan IV (the Terrible) in 1554, opening the way for further expansion east and south. Makhachkala was occupied in 1784 (then called Port Petrov), and Baku in 1806. The Russian expansion in Turkestan, to the east of the Caspian, was accomplished in the second half of that century. During the Second World War, the Red Army occupied the northern part of Iran, which Stalin tried to sovietize after the war in 1945-46. Had he been successful, this would have turned the Caspian into a Soviet lake.

¹ Astrakhan is at 1290 km from Moscow, and an important transport junction between the Caucasus, Ural and the Russian capital.

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Compared with past decades, Moscow is clearly on the defensive to save what can be saved of the total monopoly it had over most of the Caspian, the Transcaucasus and Central Asia. From this perspective, Moscow is on the defensive and does not have an aggressive expansionist approach. It considers that its ill-defined “national interests” are being challenged here too by western powers, old regional rivals like Turkey, which collide with the over two centuries old rebellion of the Chechens. Moscow finds that its policy of creating zones of influence, which is legally called the Commonwealth of Independent States (CIS) and less officially the “near abroad”, is similar to the American backdoor garden in Latin America, while its brutal military intervention in Chechnya was simply justifiable and comprehensible similar to the US military intervention in Panama, Kuwait-Iraq, or more recently in Haiti.

If Moscow politicians still have the feeling that their great power status and several centuries domination over the Caspian gives them special rights there, this impression is not shared by others. Both the methods of domination and the historic memory of the other peoples reinforce the rejection of the Russian “natural” right to rule. Around late 1992-early 1993, both political and military elites in Moscow decided to firmly keep their positions in the Caucasus and Central Asia, after abandoning strategically important regions in eastern-central Europe and the Baltics. While Moscow had no model for its rule - having abandoned its unpopular Soviet system yet itself unclear how to reproduce its power base -, and unable to address the basic needs for the socio-economic reconstruction of the new republics, it still had the means to keep its domination: through its military supremacy in the region. This model of military domination is outdated, unable to legitimate itself. Compare NATO’s expansion to the east, not to say the continuous presence of US troops in Europe after the end of the original reason for their presence (that is the threat of the Red Army), with the Russian military intervention in Grozny: the first is seen by the public opinion of these countries as a protection and extension of the security umbrella to eastern-central Europe, while the two-year military campaign in Chechnya is seen as unjust even by Russian public opinion. Moreover, the operation failed in its objectives, and today the Chechen forces are back in Grozny while the Russian troops are withdrawing, as twice before in 1991 and 1992.

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The major problem of the re-creation of the Russian domination over its southern neighbours is the chaos and uncertainty reigning in the Kremlin². The constant changes in the upper echelons has introduced radical shifts in policy orientation. The competition between the various state institutions, where roles remain unclear and numerous interventions in foreign policy-making occur, is another problem. The third problem is the uncertainty and continuous decline of the Russian economy.

Therefore, Russian policy today and in the near future towards the Caspian is surrounded with uncertainty. While we continue to witness the struggle for the formation of the new division around the Caspian, one should expect surprises again and again. Therefore, I will try to draw a number of parameters over this rapidly developing picture that will be relevant to Russia's Caspian policy:

- 1- The energy sector and the formation of the new ruling elite;
- 2- The energy question and the "near abroad";
- 3- Moscow's relations with Iran, Turkey, the Arabs and the West in the Caspian area;
- 4- The autonomous republics of the Russian Federation and the Caspian.

ENERGY AND THE NEW RUSSIAN ELITE

Symbols save much ink: Viktor Chernomyrdin, the previous director of Gazprom is today's Russian prime minister³. He was the logical successor of

² For a recent debate on the Russian national interests, see the recommendations of the Council on Foreign and Defense Policy published in *Nezavisimaya Gazeta*, 23 May 1996, and its English translation in *Transition*, 26 July 1996.

³ Many high political cadres are related to Gazprom. Gazprom board of directors include Alexander Kazakov, Russia's Vice Premier and chairman of the State Property Committee, and Andrei Vavilov, Deputy Minister of Finance. Former board members included Dmitry Vasilyev, chairman of the Federal Securities Commission, Vladimir Kostyunin, First Deputy Minister for Fuel and Energy, and Vladimir Yevsyukov, Deputy Economics Minister. See Andrei Denisov, "Gazprom Does Its Accounts", *Moscow News*, 13-19 June 1996. Gazprom is the world's biggest gas producer, dominating 36% of global gas reserves.

Igor Gaydar and his market-oriented reforms. The energy industry, liberated from the state-fixed prices at a fraction of that of the world market, has survived the shock-therapy to become the most profitable sector in the Russian economy. Through this, the energy wing of the *nomenklatura* acquired dominance, while the party, military and industrial lobbies disintegrated. After the Russian presidential elections last year, when the elected president Boris Yeltsin has constantly been absent because of his poor health, Chernomyrdin has taken over the functions of the presidency⁴.

Five years after the disintegration of the USSR, the basic question the reforms of Gorbachev tried to address is still valid: how to modernize the Soviet economy and integrate it in the world system. At the heart of the Soviet economy stood the military industry, which enjoyed all kinds of privileges, received the most important investments in material and workforce. All other industries depended on the military, forming the famous military-industrial complex. The Soviets believed that a strong military and heavy industrial production was necessary for the defense and survival of the Soviet system, in the conditions of the Cold War and the arms race. With the fall of the USSR, the Kremlin inherited an industrial complex useless for their new objectives. The Russian Army, with its weapons demands diminishing year by year, is unable to pay its debts to the different factories. The arms exports, on which high stakes were placed, shrunk likewise and counted for not more than 3 billion USD in 1995.

The collapse of the military industry, the rapid transformation from a bureaucratically centralized economy to what is called a “free market”, and the disintegration of the existing links with economic partners was catastrophic for the Russian economy. In the last five years, the industrial production was cut by half. The dilemma for the post-Soviet Russian leadership today is how to pull itself out of the debris, and create a new economic sector on which the future system could be based. With the appointment of Chernomyrdin as prime minister the bet seems to have been placed on the energy sector.

The oil and gas industries were never poor in Russia, neither under the tsars, nor under the Soviets. Russia has huge reserves, and is the world’s second largest producer of energy⁵. While low-quality Russian industrial output could

⁴ *Nezavisimaya Gazeta*, 14 September 1996.

⁵ Russia produces around 13% of global energy, 28% of its gas, 12% of its coal, and 11% of its oil. See Peter Rutland, “Russia’s Energy Empire Under Strain”, *Transition*, 3 May 1996.

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hardly compete with foreign products, the oil and gas exports guaranteed the constant flow of hard currency. The oil/gas exports, beside to the important incomes they guaranteed (around 30 billion USD in 1995), could in the future stimulate industry; idle military factories could start producing pipes and pumps necessary for the expanding domain. Oil infrastructure needs major renovations, and new oil projects will necessitate thousands of kilometers of pipe-lines, plus a number of new refineries. The energy exports could therefore stimulate a revival of the depressed Russian machine-making industry, and help convert military factories into civilian production.

The energy sector bears all the problems characteristic to the new Russia. Oil production fell 13,5% in 1993, 12% in 1994 and 3% in 1995⁶, while gas output has kept its level. Western sources explain this downfall by the obsolete and aging infrastructure, which needs major investments in order to prevent future decline. Russian officials say that the fall is the natural result of the market mechanism: less demand from the industry and consumers, therefore less supply and production. Other problems are the inability of a part of these industries and consumers, and CIS customers, to pay their bills⁷. The infrastructure of oil production, refineries and the pipe-line networks needs huge investments to modernize the aging machinery from one side, and to reshape the industry to fit its new role of maximising exports to hard currency markets in the West⁸, from the other.

The energy sector witnessed a fierce internal struggle over the privatization process that started in 1994. The number of firms authorized to export oil had reached 179. A series of assassinations of oil company and bank directors revealed how fierce the struggle was - and still is. Important parts of oil exports were simply diverted to private accounts in the West, while the distribution of gasoline and other products in Russia - as in other CIS countries

⁶ Russian oil production fell from a peak 569.5 million tons in 1987 to 306.4 million tons in 1995. See James Watson, "Foreign Investment in the Russian Oil Industry", *Europe-Asia Studies*, Vol. 48, No. 3, 1996.

⁷ In 1995, Gazprom "provided consumers with 102 trillion rubles worth of gas, but received only 59 trillion rubles in payment. The main non-payers were Russian consumers, who owe the firm 29 trillion rubles, and the CIS and Baltic states, which owe 13.6 trillion rubles." Andrei Denisov, *op. cit.*

⁸ On December 31, 1994, Chernomyrdin signed a government resolution which liberalized the oil exportation laws by canceling previously existing export quotas. See *Sevodnya* 6 January 1995, in *Current Digest of Post-Soviet Press*, (CDPSP), Vol. XLVII, No. 1, 1995.

- are supervised by illegal armed groups. In spite of the continuation of both criminal activities, and bureaucratic obstacles, there are ample signs that lead to believe that the sector has come out of its chaotic period, to an era of concentration and consolidation⁹. Since the last reshaping dating from the end of 1995, three big and four smaller (the seven sisters) oil companies have dominated the Russian energy industry.

In spite of the various challenges the energy sector faces, it has proven to be the most lucrative, dynamic and promising industry. Energy exports counted for 30 billion USD in 1995. It is also the major contributor to the federal budget, with a slice in 1996 put at 15 billion USD¹⁰. With a third of its products exported, it is a major source of hard currency. Oil and gas companies have formed the basis of the financial markets of the Russian capital; for example, Gazprom and LUKoil (the largest Russian oil company) have joined forces to create the financial giant Imperial Bank. The penetration of the energy sector into other economic domains became visible last year. Gazprom has largely invested in agriculture, buying kolkhozes and sovkhozes, in satellite telecommunications, apartment buildings, etc. By the end of 1995, 205 former state farms were bought by the company, mostly in southern Russia, equal in size to the "Tula Province"¹¹. The assets of the company remains a secret, with estimates ranging from 200 billion USD up to 700 billion or more¹². To appreciate the strategic importance of Gazprom one can mention that the company provides 30% of the natural gas of Western Europe.

The energy industry occupies a place surpassing its merely economic and financial role. Oleg Lobov, the former head of the Security Council of the Russian Federation writes that the foreign policy of Russia pursues a strategic aim: to give back to Russia its position of "great energetic power"¹³. Energy dominates the imagination of the Russian leaders in their search for a new great power role. Asked in London in autumn 1995 what he foresaw for Gazprom in case Yeltsin loses the presidential election, the chairman of the company Rem Yiakhirev answered: "Anybody who comes to power is going to have to

⁹ According to Russian Interior Ministry givens, 70% of export revenues were diverted in 1992, 40% in 1993, and 12% in 1994. In 1995, \$2.9 billion was siphoned away from oil exports. See Peter Rutland, *op. cit.*

¹⁰ Peter Rutland, "Russian Energy Empire Under Strain", *Transition*, 3 May 1996.

¹¹ *Izvestia*, 15 September 1995, CDPSP Vol. XLVII, No.37, 1995.

¹² *International Herald Tribune*, 2 July 1996.

¹³ Valeri Kosiouk (ed.), *Le Pétrole et le Gaz Russes*, Centre de Recherche Entreprises et Sociétés et Association de Coopération Internationale, Genève, 1995, p. 19.

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manage to live with Gazprom because without Gazprom, they won't manage at all"¹⁴.

The position of the former energy technocrats of the head of the Russian political elite is unchallenged. The decline of the Party apparatus was followed by the marginalisation of the militaro-industrial complex, as shown by the failure of Arkady Volsky - its political figure - to play an important public role¹⁵. The military institution has similarly showed its inability to become a political factor. On the other hand, the mutations in the energy sector and its evolution as the major financial force have ensured its political predominance. What remains still unclear is the impact Gazprom and LUKoil will have over the Russian economy: will they behave egoistically, defending corporate interests only, or will they have an imaginative, global project to pull out the Russian economy from its current crisis?

RUSSIA, THE CASPIAN AND THE NEAR ABROAD

At a conference in Moscow in May last year, Chernomyrdin told CIS representatives that Western companies are trying to win control of the region's energy reserves and pose a threat to the security of the CIS¹⁶. The Russian prime minister called for an energy security cooperation to coordinate energy production, exports, taxation and pipeline construction. These declarations are in contradiction with that of the Russian Fuel and Energy Minister Yuri Shafranik who told Western oil companies looking for deals in Russia to stop worrying about political risk and get down to business¹⁷. But the contradiction is only in appearance: Russia wants to integrate the energy sectors of the CIS with its own, *and* cooperate with Western companies in this area.

Dominating energy distribution is a two-way profit for Moscow. States rich in energy potential depend on Russia for their exports; those which lack

¹⁴ *RFE/RL News*, 6 March 1996.

¹⁵ For an interesting discussion about elite formation in Russia, read Olga Kryshatanovskaya, "Post-Soviet Elites: Parlaying Power Into Property", "Two opposite processes were underway in Russia in 1995. In politics, democratic mechanisms for the formation of power structures continues to be strengthened; in the economy, the concentration of financial capital against a backdrop of industrial regression took place." *Izvestia*, 10 January 1996, *CDPSP*, Vol. XLVIII No. 4, 1996.

¹⁶ *OMRI daily digest*, 15 May 1996.

¹⁷ *Reuters*, 8 July 1996.

energy depend also on Russia, this time for imports. A perfect example here is the Turkmenistan gas exports to Ukraine, Georgia and Armenia. Not only do the CIS countries pay less than the international prices, but in most cases they lack the cash to cover their debts, which after long delays are finally covered through barter¹⁸. While keeping for itself the more interesting foreign markets, Russia continues to exert influence on both ends of its pipes. A number of CIS states have a large energy bill to Russian companies, the total surpassing 3.3 billion USD. Russian officials - politicians or oil/gas company directors - have suggested that the cumulative debt be reduced by converting it into "property rights over installations in other CIS republics"¹⁹. The motivation in Minsk for the April 1996 integration treaty between Belarus and Russia was to write off its energy debts and to receive oil and gas in the future at a reduced price. The Russian gains in the deal are less clear apart from Boris Yeltsin's campaign for the presidential election two months later. Surprisingly, Gazprom accepted the politically motivated deal without criticism, once again revealing the close connection between the Russian government and the semi-private oil and gas companies²⁰.

The huge deposits of oil and gas in Azerbaijan, Kazakhstan and Turkmenistan - it was believed not long ago - would constitute a guarantee of an independent development of these countries. Economic independence necessarily brings political independence and stability. Yet, in the domain of energy exports, Russia's southern neighbours seem dependent on its will, at least in the medium term. The conclusion of five years of independence has been that oil and gas exports necessarily need Russia's collaboration. It is true that most investments are from Western oil companies, and the exports pass equally through the same companies. By the turn of the century, specialists tell us, Europe is expected to import 2 million barrels of oil daily from the Caspian region²¹. But Russia still possesses the key - the pipeline infrastructure to export the oil that passes through its territories. For landlocked Central Asia and Azerbaijan, with no access to an open sea and their routes through Iran

¹⁸ For example, Armenia exports gold for the Turkmen gas it receives.

¹⁹ *OMRI Economic Digest*, 28 December 1995. The quote is from Chernomyrdin. Rem Vyakhirev, the chairman of Gazprom has pressed Belarus and Ukraine to give up shares in their oil and gas facilities for their debts to the company. Russian officials have otherwise suggested Ukrainian former president Kravchuk give up Ukraine's share of the Black Sea Fleet in exchange for Russia writing off its energy debt.

²⁰ Ustina Markus, "Energy Crisis Spurs Ukraine and Belarus to Seek Help Abroad", *Transition*, 3 May 1996.

²¹ Thomas Land, "Pipelines and Politics", *The Middle East*, January 1996.

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vetoed by a stubborn US administration that insists on keeping the Islamic Republic out of the new Great Game, Russian routes are left as the only choice.

The Russian objectives in the energy sectors of Central Asia and the Caucasus seem to be:

1- to control the largest possible production shares;

2- total control over transport routes.

After much arm-twisting Kazakhstan could not but give in to Russian demands on the pipeline question. The 27 April 1996 agreement permits Kazakhstan - and for that matter Chevron, the major investor in Tengiz oilfield - to come out of the vicious circle by constructing a pipeline (2 billion USD is the preliminary cost) through Russia and ending at the Black Sea port of Novorossiisk²². The pipeline company's main chunk went to Russia, with a 24% state share, and another 20% for LUKoil and Rosneft, not counting tariff revenues for the pipeline's Russian operator Transneft. Some Russian commentators underlined - not without irony - that "the indestructible union of the peoples of Russia and Kazakhstan ... will henceforth have a substantial economic base ... steadily supported by a large quantity of oil"²³.

Kazakhstan, lacking national cohesion, cannot afford a showdown with the Kremlin. Its president, Nursultan Nazarbayev, has been carefully balancing between the state-building of Kazakhstan and its relations with Russia. The central authorities have cracked down on two internal opposition movements, Kazakh nationalists and Russian groups demanding autonomy for mainly Russian populated northern regions. The Russian "minority" counts for 36% of the population of 17 million, and is the majority in the northern provinces. In spite of their large numbers, the Russians are under-represented in administrative and political posts, Russian-only organizations are banned, and a general feeling of discrimination exists²⁴. The imprisonment of Cossack Ataman Nikolai Gunkin received a wide coverage in the Russian media, and caused the interference of the Russian foreign ministry spokesman Grigori Karasin calling for his release. An evidence of dissatisfaction in Kazakhstan's Russian population is the high rates of emigration; 200 000 Russians left the

²² *Financial Times*, 29 April 1996.

²³ *Sevodnya*, 30 April 1996, translated to English in *CDPSP*, Vol. XLVIII, No.17, 1996.

²⁴ See Ian Bremmer and Cory Wett, "The trouble with democracy in Kazakhstan", *Central Asia Survey*, 15(2), 1996.

country in 1993, and 300 000 in 1994. While relations are tense with his own Russian population, Nazarbayev has balanced it with friendly relations with the Kremlin.

Azerbaijan poses the most serious hindrance to Moscow's Caspian projects. The September 1994 "deal of the century" did not please many Russian leaders. Although LUKoil received a share of 10% in the 7.5 billion USD project, the foreign ministry condemned it and considered it "illegal", stressing that no deal can be finalized before an agreement on the legal status of the Caspian is reached. Moscow pointed out that the Caspian is a closed sea, therefore technically a lake. This means that the offshore wealth should be divided equally among the five Caspian states, and that joint sovereignty should prevail, where unilateral actions become illegal²⁵. Such a status would rise the Russian portion of any deal to 20%, and give Moscow the power to veto any activity it dislikes.

While the legal aspects of the Caspian occupy specialists, Russian oil companies do not hesitate to take part in the major deals. The status issue is successfully used by the Russian side to obtain more important parts in the oil fields of Azerbaijan and Kazakhstan. The October 1995 deal concerning the transport routes of the Azeri, Gunashli and Chirag offshore fields were decided to follow two routes : one through Novorossiisk, and the other through Poti in Georgia; yet, sources close to the consortium declared at the time that the shipments will actually go through Russia. The Georgian pipeline would only be used at a later stage, at the peak of production²⁶. Yet, in that region, things can still change...

In November 1995 Russia received another present from Baku. LUKoil obtained a 35% share in a contract for the development of a new off shore oil field in the Caspian, the Karabakh field²⁷. Counting the joint ventures where LUKoil is involved (Lukagip, Azerilukoil) its share increases to 52%²⁸. The Azerbaijani parliament criticized the deal, considering that Azerbaijan had surrendered its national interests to Russia. The parliament chairman Rasul

²⁵ Rodman R. Bundy, "The Caspian - Sea or Lake? Consequences in International Law", *Central Asia Quarterly*, Summer 1995.

²⁶ *The Wall Street Journal Europe*, 9 October 1995.

²⁷ *Izvestia*, 11 November 1995, translated into English in *CDPSP*, Vol. XLVII, No. 45 (1995).

²⁸ The Karabakh field has reserves estimated between 80-120 million tons, and its development would cost 1.7 billion USD.

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Kuliev said that the only benefit for Azerbaijan would be “a limited transfer of technology”²⁹. Azerbaijan heavily depends on the Russian economy, and the closing down of Russian-Azerbaijani borders after the start of the war in Chechnya has deeply hurt the Azerbaijani economy and living standards; in 1994 production fell by 30% and the minimum salary was equal to 1.2 USD per month³⁰.

Azerbaijani president Haydar Aliev seems to be facing an impossible mission. He wants to mark the sovereignty of his country by refusing the creation of Russian military bases over Azerbaijani territories; to export oil to international markets without Russian meddling; and to return the breakaway region of mountainous Karabakh to Azerbaijan, a region which has close relations with the Russian military.

To conclude this part, Russia and the Central Asian states (including Azerbaijan) have both common interests and deep contradictions. All of Russia, Kazakhstan, Azerbaijan and Turkmenistan rely on energy exports for their hard currency. All depend on Western investments to keep their oil infrastructure from breaking apart, and build new pipeline networks and refineries to accommodate current export aims. All depend on the Western oil companies to market their products. Here, the clash of interests is clear; Russia will permit the export of Kazakh or Azeri oil only for the price of close collaboration. For the Russian industrial complex, the CIS countries could be a major attraction. The Russian machine-building factories, cheaper than their Western counterparts and better adapted to the economies of CIS countries, could obtain important deals for the oil-related projects in Central Asia and the Caucasus.

RUSSIA, THE CASPIAN AND THE OTHERS

The other countries which can have a direct impact on Russia’s Caspian policy are Iran, Turkey, the Arab states of the Middle East, and the West.

If Russo-Iranian relations have taken a clear shape since the great political earthquake of 1991, Russian relations with such countries as Iraq and Syria could in the future witness an increase in commercial exchange, military sales and political cooperation. Western bets on Turkey to spread its “model” to

²⁹ *RFE/RL News*, 15 February 1996.

³⁰ Chris Kutschera, “The Kuwait of the Caucasus?”, *The Middle East*, March 1996.

the Turkic and Muslim states of the former Soviet Union died down long ago, when they were replaced by the idea that Russian domination over these regions is a lesser evil than the danger of “Islamic fundamentalism” that could have spread to the new republics. Yet, the growing involvement of American-led oil companies in Azerbaijan and Kazakhstan with multi-billion-dollar deals, which perceive Russia as an obstacle to the development of their projects, might exert increasing pressure on Washington to formulate a new policy towards the Caucasus and Central Asia. In the oil issue, the CIS countries remain a single element among many others in the complex US-Russian relations.

Iran-Russia

Moscow does not perceive Teheran as a threat to its hegemonic position over its southern, formerly Soviet, neighbours. Although the Transcaucasus was won by Tsarist armies in the early nineteenth century in wars against the Persian empire, and Central Asia in the distant past was a sphere of Iranian influence³¹ - and until today most of them are populated by Muslim majorities - Iran clearly expressed its wish to establish cooperation with these new independencies within limits tolerated by Moscow. Without trying to spread its model of an Islamic republic, Iran has been carefully moving to establish economic ties with its new northern neighbours, and through them with Russia.

Active interests over joint partners and common “enemies” have strengthened Moscow-Teheran relations. Both Russia and Iran oppose the spread of Turkish influence to the heart of Asia³². Both sides have had troubled relations with the rulers of Baku, whether under the pro-Turkish nationalist Elchibey, or under Aliiev and his manoeuvring to gain influence through Western oil partners. Armenia and Turkmenistan serve as bridges of cooperation between the two Caspian powers, around which they have established both commercial exchanges and strategic bases of cooperation³³. Even on occasions of conflicting interests, like during the civil war in Tajikistan where “Islamists” were fighting against “Communists”, Iran

³¹ Fred Halliday, “The Empires Strike Back? Russia, Iran and the New Republics”, *The World Today*, November 1995.

³² Shireen Hunter, “Closer Ties for Russia and Iran”, *Transition*, 29 December 1995.

³³ Lowell Bezanis, “Turkmenistan, Joining Forces With Iran and Russia”, *Transition*, 11 August 1995.

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prudently abstained from intervening and avoided the anger of the Kremlin³⁴. This, in spite of the fact that Tajiks are ethnically related and speak a language close to Persian. Iran finds in Russia an outlet from its international isolation, and an ally against the US. After visiting Moscow for the first time since the collapse of the USSR, Iranian foreign minister Ali Akbar Velayati declared that "Russia and Iran are natural allies in the face of American interference in their internal affairs"³⁵. This cooperation also has its "material basis": Russian military exports to Iran counted for 437 million USD in 1994.

Russia and Turkey

During five centuries Russia and Turkey fought 13 wars. Russian mistrust of Turkey persists, even after it became evident that Turkey was unable to extend its influence over the Central Asian republics as Ankara had initially hoped. Russia has been jealously watching any Turkish move eastwards. When Turkish military and political leaders announced their readiness to intervene in Nakhichevan after the Armenian successes in the Karabakh war, then-CIS military commander Marshal Shaposhnikov warned that such a move would lead to a "Third World War" since it would be considered a "NATO attack on the CIS"³⁶. Turkey is still struggling to ensure the export of a part of the Caspian oil through a pipeline to be constructed over its territories, linking the Batumi port in Georgia with the Turkish Mediterranean port of Ceyhan. "Taking into account ecological considerations, oil deliveries from Caspian deposits should be made by detouring the Bosphorus Strait," said Turkish Foreign Minister Emre Gönensay during a visit to Washington last year³⁷. Ankara proposes a more expensive alternative than the Baku-Novorossisk pipeline, that of the renovation of the Baku-Batumi, and the construction of a new pipeline reaching the Mediterranean³⁸.

³⁴ Bess Brown, "Tajikistan: The Fall of Nabiev", *RFE/RL Research Report*, 25 September 1992.

³⁵ *Agence France Press*, 11 March 1996.

³⁶ George Harris, "The Russian Federation and Turkey", in Alvin Rubinstein, Oles Smolansky, *Regional Power Rivalries in the New Eurasia*, New York, M.E. Sharpe, 1995.

³⁷ *Itar-Tass*, 22 May, 1996.

³⁸ The renovation of Baku-Novorossisk is estimated to cost 60 million USD, while Baku-Batumi around 250 million USD, not counting the construction of an additional segment over the mountainous Anatolia reaching the port of Ceyhan.

All is not bleak between Russia and Turkey. The volume of trade has dramatically increased between the two countries, and Russia climbed to the sixth position for both imports and exports in and from Turkey³⁹. Turkish products are abundantly found on Russian markets, while Turkish construction firms are active in the Russian tourist cities of Sochi and the capital. The new Gazprom office building in a southern Moscow suburb is said to be under the supervision of a Turkish company. In return Turkey is increasingly buying Russian weapons and energy.

Russia and the Arabs

The old Soviet partners in the Middle East have been waiting at a distance since the fall of the Soviet Empire. The pro-Western policy of Andrei Kozyrev, and attempts to improve relations with Israel at the expense of its previous relations with the Arabs had deeply angered Damascus. The appointment of Primakov as Russian foreign minister has “broken the ice” between Russia and Syria⁴⁰. Russia has always criticized Washington's handling of the 1990 Iraqi invasion of Kuwait (although Russia has accepted all UN resolutions) and the crisis that has since continued in the Persian Gulf, with France actively calling for a rapid lifting of the embargo. Oil companies and industries from Tatarstan (a republic within the Russian Federation) are already in contact with Iraqi authorities to start a number of projects as soon as the Washington backed UN embargo is lifted.

The recent Turco-Israeli military alliance has rocked the security balance in the Middle East. To counter the new force, Iran has reinforced its military alliance with Syria. According to the London based Lebanese daily *Al-Hayat*, an Iranian diplomat has put forward the idea of an alliance between Iran, Iraq and Syria “in the direction of coordinating tripartite policy”, and countering the Turkish and Israeli threats⁴¹. Will new poles emerge in the Middle East, permitting Russia a more active role there? In any case, the oil rich Arab countries, which are already in financial crisis because of the low oil prices, watch the developments of the oil sector in and around the Caspian closely, worried and powerless.

³⁹ *Transition*, 14 June 1996.

⁴⁰ *Al-Hayat*, 22 May, 1996.

⁴¹ *Al-Hayat*, 26 June 1996.

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Russia and the West

For the West, the potential of economic cooperation with Russia is by far greater than that of the Caucasus and Central Asia combined. The total crude oil reserves of the former Soviet Union is evaluated at 57 billion barrels, out of which 46.5 billion barrels are found on Russian territories⁴². To stop the decline of production, its oil industry needs huge investments, a sum put at 50-70 billion USD. Western oil companies seem to be ready for that, although Russian suspicion of being “colonized” by Western investors persists⁴³. Russia is treating Western oil companies “one for one”: collaboration to secure Russian interests in Central Asia and the Caucasus is rewarded with interesting contracts in oil rich West Siberia, the North Pole region and Sakhalin island.

This already said, there are increasing voices in Washington demanding a more “active” American involvement in what Russia calls its “near abroad”. Paul Gobel, a senior associate at the Carnegie Endowment for International Peace, writes: “Many in the United States do not understand what is at stake. If they did and if they thought geo-politically, they would realize that continuing instability or the restoration of Russian control throughout the region are not in our interest or the interests of the peoples of this troubled part of the world”⁴⁴. Other complaints are more down to earth; “Anyone doing business in Russia will testify to an unsettled legal environment, a lack of clarity in business arrangements and the government of Russia’s willingness to direct non-Russian firms to undertake unprofitable operations without prior consultations”⁴⁵.

The love-hate relationship between the American oil companies and the Russian authorities will continue because of the huge interests at stake: for American companies Russia remains the best transit route to reach Central Asia; Moscow in its turn depends on Western investments. These mutual interests will maintain Russo-American cooperation in spite of Russian

⁴² Kazakhstan is next with 6 billion barrels, and Azerbaijan on third position with 2 billion barrels. See *Oil and Caviar in the Caspian*, Menas Associates, September 1995, p. 41.

⁴³ James Watson, “Foreign Investment in Russia...”, *op. cit.*

⁴⁴ Paul Gobel, “Pipelines and Pipedreams: The Geo-Politics of the Transcaucasus”, *Caspian Crossroads Magazine*, June 6, 1996, electronic version.

⁴⁵ See the article of Glen Rase, who is the director of “Office of International Energy Policy”, “A Washington Perspective on Caspian Sea and the Pipeline Options”, in *Oil and Caviar in the Caspian*, *op. cit.*, p.53.

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frustration at seeing Americans drilling in Kazakhstan, or US anger about Russian manipulation to keep its dominant share of the Baku oil.

RUSSIA, THE CASPIAN AND THE AUTONOMOUS REPUBLICS

If it was not for the eruption of violence again this August in Chechnya, the ethno-territorial upheavals of the late 1980's and early 1990's would have been "history". The major papers today often print the map of the Caucasus and Central Asia to show the existing pipelines, or those to be constructed, some years back the same maps of the same regions revealed the demarcations of the various ethnic groups and the linguistic borders. But neither in Chechnya, nor in a number of other spots in the Caucasus and Central Asia have the conflicts reached their "logical end". The risk exists that regional instability and great power interventions could produce new oil wars, a parallel of what we have in the neighbouring Persian Gulf and the Arab world.

Within the Russian Federation, on the shores of the Caspian, two republics exist - Kalmykia and Daghestan. Chechnya, with its war and the Baku-Novorossiisk pipeline crossing through it, cannot be ignored. With the process of decentralisation in Russia, to what extent can these entities play an independent role of their own?

Chechnya

The Russian military intervention in Chechnya was in our point of view, a great mistake. And by now, it is also a great failure. After nearly two years, the Russian troops are evacuating Grozny, leaving the rule of Chechnya to Yandarbayev and Maskhadov - or the "Dudayevist bandits" as high ranking Russian officials have called them so often. Apart from the humiliation the Russian military suffers from, the question of Chechnya is uncomparably more complicated today than it was on 11 December 1994. At the time, Chechnya was an island of exception. The idea of Caucasian rebellion had not taken form, since no other North Caucasian people joined the example of Chechnya to insist on independence. Tatarstan - the only other example within the Russian Federation which fought against Moscow for its sovereignty - signed an agreement with the central authorities where it agreed to be part of Russia in exchange of economic advantages and some additional state symbolism⁴⁶. In

⁴⁶ For a comparison between the situation in Tatarstan and that in Chechnya, see by the author "La voie étroite du Tatarstan" in *Le Monde Diplomatique*, September 1995.

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the independent Transcaucasian republics to the south of Chechnya, hundreds of thousands of people were moving to Russia escaping from the wars and economic collapse. Therefore, the idea of independent Chechnya was against the tide. Flexible Russian policy and creation of dialogue instead of demonizing the Chechens would have succeeded with time to conclude an agreement. Martyrizing the Chechen opposition was the only thing not to do. But, it seems the Russian generals and politicians became the victim of their own propaganda concerning the “Chechen bandits” or the civil war there, which was masterminded by mainly Russian agents.

Where do we stand now in Chechnya? How will the recent events, the Lebed-Maskhadov agreement, influence economic developments of the Caspian?

The Chechen problem remains suspended, like the other conflicts existing in the Caucasus. The Russian side desperately needed a cease-fire, after the fall of Grozny. The military initiative being on the Chechen side, they were threatening to rapidly expand their attacks outside the boundaries of Chechnya, and one probable target seemed the military airport of Mozdok, in North Ossetia. The Chechen war has already cost 12-15 billion USD, according to Alexander Lebed⁴⁷. Yet, Russia is the loser on the ground, and it is unclear how long the cease-fire will be respected by the Russian military.

The reconquest of Grozny by the Chechen fighters introduces additional uncertainty to the fate of the Baku-Novorossiisk pipeline. Plans exist to build a new pipeline that avoids Chechnya. Yet, the two dramatic terrorist acts undertaken by Chechen fighters outside the boundaries of Chechnya were clear threats. Budennovsk and Kizlyar, the sights of these attacks, are both situated on the line for the new pipeline to be constructed, that is supposed to cross through Daghestan and Stavropol rayon instead of the Chechen region⁴⁸. On another hand - the absurdity of this war - the existing pipeline continued to function during all the war. In fact, this pipeline was also functioning between 1991-94, when the Russian authorities had declared a “blockade” against this rebellious republic. Chechen oil reserves are insignificant, extinct after a century of over exploitation. The only hope for an economic revival is the transit of the Caspian oil through the Baku-Novorossiisk pipeline through

⁴⁷ *Komsomolskaya Pravda*, 17 September 1996, English translation in *OMRI* electronic bulletin, 18 September 1996.

⁴⁸ See the article of Alexei Tchitchkin, “Le terrorisme tchétchéne : suivez la route du pétrole?” in *Vek*, translated into French in *Courrier Internationale*, 1-7 February, 1996.

Grozny. It is significant to remark that in spite of the war, the Chechen groups did not attack the pipeline⁴⁹. It seems that the Chechen fighters were not only thinking about the future interests of Ichkeria⁵⁰, but the pipeline continued to supply them with much needed cash; according to the pro-Moscow administration in Grozny, underground refineries in Chechnya profited by 33 billion rubles monthly from oil stolen from this pipe⁵¹.

In spite of two years of war and two centuries of rejection of Russian domination, Chechnya had no other choice but to reach an agreement with Russia. It discovered that both the international community and the Islamic world are indifferent to its fate. The radical Caucasian People's Confederation which wanted to create an independent North Caucasus, has been paralyzed since the war in Chechnya started. Surrounded by Russia and Georgia, Chechnya has no outlet to the outside world.

Daghestan

Between Chechnya and Azerbaijan, Daghestan remains a land loyal to Moscow. Its strategic importance is great: the famous pipeline coming from Baku crosses through Daghestan; Daghestan is the southernmost Russian territory on the Caspian coast. Regarding Daghestan's history, this loyalty comes as a surprise.

Contrary to what many observers might have expected, Daghestan has preserved its peace, by keeping away from joining the Chechen rebellion, and by preserving its internal peace. All during the first half of the last century (1805-1859) Daghestan was at war against Tsarist expansion to the North Caucasus. The legendary leader Imam Shamil was himself a Daghestani Avar. That explains why the Chechens concentrated their propaganda efforts on Daghestan, calling them to join their holy "ghazavat" against the invading Russian troops. If the "country of mountains"⁵² had joined in the war, ethno-territorial conflicts inside Daghestan could have erupted. The 1989 Soviet census counts 32 indigenous ethnic groups in Daghestan, the most numerous

⁴⁹ Vaguit Alekperov, the director of LUKoil declared: "Ce n'est pas l'intérêt des Tchétchènes que le pétrole ne passe pas par chez eux. D'ailleurs, l'oléoduc fonctionne toujours." *Le Monde*, 6 June 1996.

⁵⁰ As the Chechens call their land.

⁵¹ *Interfax*, 3 August 1996.

⁵² Daghestan is composed by a turkic noun and a farsi suffix, meaning "country of mountains".

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being the Avars (600 000) down to the Ginukhs (400). Therefore, the leadership of Daghestan is conscious that involvement in ethnic based conflicts would bring calamity to this mosaic of peoples.

Although the Daghestani leadership declared its neutrality during the war in Chechnya, to keep the republic away from the war, still the republic suffered enormously as a result of the disruption of communication routes that linked Makhachkala with the rest of Russia, crossing through Grozny. The closing down of the borders with Azerbaijan and Georgia in the south, by Russian border guards in order to prevent the flow of arms to Chechnya, has further isolated Daghestan. Its self-declared neutrality did not save Daghestan from having its border villages turned into battlefields between the federal forces and Chechen fighters. The TV images of the hostage taking operation in Kizlyar, and later the violent attack by the Russian forces against both the fighters and the hostages were spread around the globe for several days.

Although the war and the blockade created a feeling of unity⁵³, a number of potential conflicts persists in Daghestan :

1-The Koumyks, who are the third largest population, and historically inhabited the coastal plain around Makhachkala, are marginalized today by being a mere 22% of the total population in their region of origin. The Koumyk national movement wants to stop migration from the mountains to the coastal regions, and to defend the Koumyk cultural rights. The disregard of their case by the authorities threatens to radicalize the Koumyk movement.

2- The Lezgins, who live in south Daghestan and north Azerbaijan, are divided by an international border between Russia and Azerbaijan. The Lezgin national party Sadval demands unification of Lezgin lands within Daghestan, which is strongly opposed by Baku⁵⁴.

3- The 40 000 Akins - or Chechens of Daghestan - want to return to their villages of origin in what is now Novolakski "raïon", from where they were deported in 1944. In spite of their solidarity with the Chechen nation during the war, the Akins did not get involved in the war.

⁵³ Interviews by the author with a number of officials in Makhachkala, August 1996.

⁵⁴ The Lezgin problem is far from being solved. Azerbaijan has accused Sadval of being behind the Baku metro explosion and other terrorist acts. See Magomedkhan Magomedkhanov, "Dagestan, A Cautious Course Through the Storm", *Warreport*, June 1996.

4- The Nogays, who live in the northern part, are equally divided between Daghestan, Chechnya, Kalmykia and the Stavropol region.

Although Daghestan was not in the forefront of interest up to now, thanks to its relative stability in a region plagued by conflicts it can play an important economic role in the future. For example, plans exist to enlarge the port of Makhachkala. Yet, for the moment Daghestan has a great number of problems: mass unemployment because of the closing down of a large number of factories in Makhachkala; rise in criminality and urban gangs; and being encircled by rings of conflicts to its south and its west.

Kalmykia

This autonomous republic with a surface of 75 900 km² is completely flat; covered by grass in the early spring, it turns into a desert under the summer sun. Kalmykia has only 322 000 inhabitants, from which only 146 000 are ethnic Kalmyks. This Buddhist people of Mongol origin was deported to Siberia in 1943 for “collaborating” with the Nazi enemy; during this deportation, 30% of the population perished⁵⁵. In exile, the Kalmyks have completely lost their language, and their traditional culture. There is no movement of opposition against Moscow, and a visitor is left with the impression that Kalmyks are culturally Russified.

The young president of Kalmykia, Kirsam Ilyumzhinov, was a successful businessman in Moscow before returning to Elista. Through liberal tax laws and foreign contracts, he intends to turn Kalmykia into a business center. A leader factory has been recently constructed in the capital, and a refinery is under construction on the Caspian; enlargement of the airport and a five star hotel are among future plans⁵⁶. As one of the most stable republics in the southern part of the Russian Federation, and with a rich businessman as president, Kalmykia is considered one of the safest places for investment and trade activities.

⁵⁵ See N.L. Zhukovskaya, “Kalmukia and Kalmuks: Problems of the Post-Perestroika Era, 1989-1992”, in *Central Asia Survey*, Vol. II, No. 4, 1992.

⁵⁶ Kirsam Ilyumzhinov, interview with the author, Elista, 19 May 1995.

CONCLUSION

For Russia, the Caspian basin is of great strategic importance. After an initial decline of its influence as a result of the emergence of the newly independent states, Russia in our point of view, succeeded to impose itself as the dominant power in the region. In the various conflicts in the Caucasus and Central Asia, the Russian military has either levers of influence (Karabakh) or direct military presence (South Ossetia, Abkhazia, Tajikistan). Regarding the oil exports, Russia is considered now as the best route to transport both Kazakh and the Caspian off-shore oil. If in the past Western observers thought that the export of oil and gas would give Azerbaijan, Kazakhstan and Turkmenistan the means to exercise their independence from Moscow, in the last two years we observe that precisely in the oil domain, these countries once again have become dependent on Russia.

Preserving its influence over the energy reserves of the Caspian, and its transportation, is a necessity for Russian foreign policy. If this oil is important enough for the West to divert its resources and decrease its dependence on the Gulf states, for the CIS states the energy question is the primary national security problem. The independence, foreign orientation and reshaping of their economies depend on the energy question. Armenia, Georgia and Ukraine are heavily dependent and indebted to the Russian energy system. For Azerbaijan, Kazakhstan and Turkmenistan, the dream of a "second Kuwait" depends on whether they will succeed in exporting their oil to the hard currency markets. For Russia, dominating the energy of the Caspian is a guarantee to preserve its power position with its southern, formerly Soviet neighbours.

Yet, not everything is smooth. The failure in Chechnya has seriously hurt Russian prestige not only in the West, but also in the former Soviet republics. After twenty months of combat, Grozny and a section of the pipeline there are out of Russian control. More to the south, Azerbaijan persists in refusing to have Russian military bases, or Russian-only peacekeepers in the Karabakh conflict zone. Azerbaijan is also the major opponent to the Russian version of the legal status of the Caspian, insisting that it should be treated as a sea and divided into exclusive economic zones. Chechnya with Azerbaijan could form a hard nucleus to resist Russian influence there, and oppose its military and energetic projects. If Azerbaijan is powerful enough, it could insist on the Georgian-Turkish route for oil exports, and even constitute a possible alternative for the landlocked Central Asians.

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For Russia, the oil question is not only a question of foreign policy. The energy elite today occupies the Kremlin, and rules Russia. Its financial system depends on energy exports. Many hope that the oil and gas revenues will stimulate the rusty Russian industry. Therefore, the future of Russia, like that of Azerbaijan or Ukraine, depends on who will control the flow of oil and who will receive Western investments.

Will the huge energy riches of Russia, plus its domination of the transport routes of the Caspian oil, help Russia out of its crisis? Will the profits from oil and gas continue to benefit only a chosen few? Will Moscow maintain its positions in the Caucasus after the failure in Chechnya? The questions are both interesting and important to be followed.