

# **Caspian Sea Oil Management**

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Friday, March 14<sup>th</sup>, 2003  
EDGE 297B

The Caspian Sea region possesses large oil reserves that, when properly exported, can help many countries worldwide. The main issues impeding the exportation of this oil are the legal status of the Sea, the political instability within the region and the countries that contain pipelines for the oil, and environmental issues. Azerbaijan, Iran, Kazakhstan, Russia and Turkmenistan - the five countries bordering the Sea - have differing views on dividing the Sea; this is a cause of unrest in the region. Additionally, the surrounding area through which many current and future pipelines would run is wrought with a variety of problems. The US war on terrorism has wreaked havoc in Afghanistan, India and Pakistan often argue over the border of the Kashmir region, and Turkey has claimed that environmental issues in the Bosphorus Strait will impede increased oil exportation from the region. With proper help from the International Court of Justice (ICJ) and the United Nations (UN), these issues can be mitigated and the oil can be used by the rest of the world.

Similar issues over oil and oil management have been brought before the ICJ, namely a dispute between Cameroon and Nigeria over the ownership of oil in the Bakassi Peninsula. The court has decided the case in favor of Cameroon and the UN has helped implement the decision of the court by taking into account the regional issues that the Court could not. One of the laws used to decide this case was the UN Convention on the Law of the Sea (UNCLOS), which governs international waterways. Another oil management issue of interest to the ICJ is the East Timor and Australia dispute over majority ownership of the Timor Gap. Though the Court has not yet intervened, it is widely accepted that the Court would invoke the UNCLOS and award most of the oil in this region to East Timor. In addition, this ruling would invalidate a previous treaty signed between two countries (Indonesia and Australia) that no longer share the border in dispute. The precedents set in these cases can be applied to the Caspian Sea region. Although this situation in the Caspian Sea region is more complex because of the number of countries involved, an ICJ decision and UN help to implement the decision would bring much-needed stability to the region.

In 1989, Indonesia and Australia signed the Timor Gap Treaty, which stipulated that Australia and Indonesia would jointly develop the oil fields within the Timor Gap in

return for Australian recognition of East Timor as a part of Indonesia.<sup>1</sup> The Timor Gap is part of the Indian Ocean between East Timor and Australia. The Gap was split into three regions: one that would be mutually developed by both Indonesia and Australia, one that would be primarily developed by Indonesia and one that would be primarily developed by Australia.<sup>2</sup> In 1999, East Timor declared its independence from Indonesia and with the help of UN forces (a majority of which came from Australia), East Timor was able to hold off the Indonesian opposition.<sup>3</sup> Upon formal international recognition of this independence, East Timor negotiated the Timor Sea Treaty with Australia, which was merely a revision of the Timor Gap Treaty. Under the Timor Sea Treaty, the three zones previously demarcated by the Timor Gap Treaty would remain intact, and East Timor would receive ninety percent of the profits from the oil in the jointly developed zone.<sup>4</sup> On paper, this agreement looks to favor East Timor, but in reality, the treaty is less beneficial for East Timor. With this arrangement, the East Timorese would yield more to Australia in oil revenues than Australia would give East Timor in foreign aid.<sup>5</sup> Additionally, East Timor would prefer that the boundary in this oil rich region be determined by the UN Convention on the Law of the Sea, which would give East Timor a larger share of the oil in the region. Despite these shortcomings of the Timor Sea Treaty, the newly independent government of East Timor signed the treaty in May 2002 in an effort to jump-start the young economy; Australia has yet to ratify this agreement.<sup>6</sup>

Under normal circumstances, the ICJ and International Tribunal on the Law of the Sea (ITLOS) would broker an agreement between these two nations based on the UNCLOS. Australia has declared that it will not acknowledge the UNCLOS, and this has severely crippled efforts for resolution on this issue. Australian and US oil companies had plans to develop the oil rich Greater Sunrise and Bayu-Undan fields respectively, but

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<sup>1</sup> Australia bullies “independent” East Timor over oil and gas, <http://www.wsws.org/articles/2002/may2002/timo-m30.shtml>

<sup>2</sup> The Timor Gap Treaty, [http://www.caa.org.au/publications/briefing/timor\\_gap\\_treaty/treaty.html](http://www.caa.org.au/publications/briefing/timor_gap_treaty/treaty.html)

<sup>3</sup> Should socialists support the UN troops? <http://archive.workersliberty.org/leftcols/1999/timor3.html>

<sup>4</sup> Australia bullies East Timor over oil and gas, <http://www.wsws.org/articles/2003/feb2003/timo-f07.shtml>

<sup>5</sup> Australia must not cheat East Timor out of oil, <http://www.scoop.co.nz/mason/stories/WO0301/S00140.htm>

<sup>6</sup> Australia bullies “independent” East Timor over oil and gas, <http://www.wsws.org/articles/2002/may2002/timo-m30.shtml>

with no treaty in place, the plans have stalled indefinitely.<sup>7</sup> East Timor is desperate for revenue from at least one of these fields to jump-start its economy. The ICJ and UN have not yet become involved in this dispute because East Timor has yet to ask for international help; instead, the East Timorese are waiting for Australia to approve the treaty. However, if the ICJ were to get involved, it is expected that the Court would invoke the UNCLOS and rule in favor of East Timor. This would invalidate the Timor Gap Treaty, which was signed by Indonesia and Australia, two countries that no longer share a border along the Timor Gap because East Timor declared its independence from Indonesia.

Another international dispute over oil is in the Bakassi Peninsula, which juts out into the Gulf of Guinea in Africa. This area borders both Nigeria and Cameroon and both have laid claims to the oil rich land, despite the fact that it is inhabited mostly by Nigerians. In 1994, after much tension and fighting in the region, Cameroon and Nigeria brought the dispute to the ICJ. In September 2002, before the formal decision was announced, President Olusegun Obasanjo of Nigeria and President Paul Biya of Cameroon met in Paris and agreed to uphold the ruling of the court. On October 10<sup>th</sup>, 2002, the Court awarded the peninsula to Cameroon based on a 1913 agreement between England and Germany and the Thomson-Marchand Declaration of 1929-1930<sup>8</sup>. Nigeria was ordered to withdraw all forces from the region<sup>9</sup>. Two weeks after the decision was announced, President Obasanjo declared that Nigeria would not recognize the ruling mainly because it did not take into account the rich Nigerian history in the Bakassi Peninsula.<sup>10</sup> There were other reasons for President Obasanjo to denounce the ruling, among them the fact that there were up-coming presidential elections in early 2003 and that by losing the Bakassi peninsula Nigeria would lose the free access it had to the Atlantic Ocean near one of its naval bases.

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<sup>7</sup>Australia bullies “independent” East Timor over oil and gas,  
<http://www.wsws.org/articles/2002/may2002/timo-m30.shtml>

<sup>8</sup> ICJ Press Release on Nigeria and Cameroon decision,  
[http://www.lawschool.cornell.edu/library/cijwww/icjwww/ipresscom/ipress2002/ipresscom2002-26\\_cn\\_20021010.htm](http://www.lawschool.cornell.edu/library/cijwww/icjwww/ipresscom/ipress2002/ipresscom2002-26_cn_20021010.htm)

<sup>9</sup> CAMEROON-NIGERIA: Government ambiguous on Bakassi ruling,  
[http://www.irinnews.org/report.asp?ReportID=30375&SelectRegion=West\\_Africa&SelectCountry=CAMEROON-NIGERIA](http://www.irinnews.org/report.asp?ReportID=30375&SelectRegion=West_Africa&SelectCountry=CAMEROON-NIGERIA)

<sup>10</sup> Activist Groups Demand World Bank Withdraw from Mining, Oil and Gas,  
[http://www.moles.org/ProjectUnderground/drillbits/7\\_09/2.html](http://www.moles.org/ProjectUnderground/drillbits/7_09/2.html)

A month after the decision, UN Secretary General Kofi Annan created a commission to broker a workable agreement between the two sides, based on the decision of the Court. The UN appointed Special Representative Ahmedou Ould-Adballah to chair the commission that would oversee this agreement. Among the measures taken to ensure a working agreement would be met were regularly scheduled meetings between local authorities and the Heads of State to discuss the border arrangement and confidence building measures.<sup>11</sup> This commission would take into account the relevant sentiments between the two countries and their relative stakes in the area.

These situations highlight the importance of both the ICJ and the UN in brokering working agreements between differing factions, especially over oil. The ICJ can objectively decide a case based on the merits presented and the UN can work out the details to implement that decision, based on the sentiments present in the region. This is the best approach to be taken in determining how oil in the Caspian Sea region should be divided.

The Caspian Sea region is second only to the Middle East in oil reserves. The economies of the five surrounding countries, Azerbaijan, Iran, Kazakhstan, Russia and Turkmenistan, depend heavily on this oil. However, many factors impede these countries from effectively exporting this oil. Among them are the legal issues of dividing the sea, the different pipelines that are available for export, regional conflicts, environmental issues, and embargoes imposed by the US. The Quartet, comprised of the UN, US, EU, and Russia, has much at stake in this region and should use its influence to broker a feasible agreement so that countries worldwide can benefit from the estimated 200 billion barrel oil reserves.<sup>12</sup>

When the Soviet Union dissolved in late 1991, many of the former Soviet states declared their independence, among them Azerbaijan, Kazakhstan, and Turkmenistan, which all border the Caspian Sea<sup>13</sup>. Until this time, the oil reserves in the region were controlled only by the Soviet Union and Iran. With the breakup has come the opportunity for foreign investors to exploit the area. The main point of contention has been how to

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<sup>11</sup> Nigeria, Cameroon request UN help in resolving Oil Dispute on Bakassi Peninsula, <http://allafrica.com/stories/200211160060.html>

<sup>12</sup> Caspian Sea Oil, <http://members.tripod.com/~KELSAGHIR/Caspian/index>

<sup>13</sup> Caspian Sea Oil, <http://members.tripod.com/~KELSAGHIR/Caspian/index>

split the Sea among the five countries and what pipelines to use to get the oil out of the region. The Russians have insisted that most of the pipelines out of the Caspian Sea region go through their territory. The US has lobbied for multiple pipelines through multiple countries so that no one country monopolizes the oil transportation out of the region.<sup>14</sup> The US Energy Information Administration has enumerated thirteen routes out of the Caspian Sea area, some of which are currently being used, others that are at the proposal stage, or under construction.

There are five pipelines currently in use and they are summarized in the following table:

<b>Pipeline Name</b>	<b>Route</b>	<b>Capacity</b>	<b>Comments</b>
Atyrau-Samara	From Atyrau, Kazakhstan to Samara, Russia	310,000 barrels/day	At Samara, Russia, this pipeline is connected into the main Russian pipeline
Baku-Supsa	From Baku, Azerbaijan to Supsa, Georgia	145,000 barrels/day	Started exporting in 1999, possible upgrades to 600,000 barrels/day in capacity
Baku-Novorossiisk	Baku, Azerbaijan to Novorossiisk, Russia	100,000 barrels/day	This is the “Northern Route.” Began exporting in 1997, possible upgrade to 300,000 barrels/day in capacity. This is the oldest exporting pipeline in the region.
Baku-Novorossiisk	Baku, Azerbaijan to Novorossiisk, Russia, with Chechnya by-pass	160,000 barrels/day	Completed in 2000, planned upgrade to 360,000 barrels/day
Caspian Pipeline Consortium	Tengiz, Kazakhstan to Novorossiisk, Russia	565,000 barrels/day	Started exporting in 2001, planned upgrade to 1.34 million barrels/day

**Table 1: Pipelines currently used to export oil from the Caspian Sea**

The Russian pipeline from Samara, Russia extends to the Baltic Sea, the Black Sea, the Ukraine, Poland, Bulgaria, Slovenia, and Greece.

There are currently eight other pipelines that are planned or under construction; they are enumerated below:

<sup>14</sup> Caspian Sea Oil, <http://members.tripod.com/~KELSAGHIR/Caspian/index>

<b>Pipeline Name</b>	<b>Route</b>	<b>Capacity</b>	<b>Comments</b>
Iran Oil Swap	Neka, Iran to Tehran, Iran	175,000 barrels/day	This is under construction. The amount of oil delivered to Neka is swapped for an equivalent amount on the Persian Gulf coast.
Baku-Ceyhan	Baku, Azerbaijan through Georgia to Ceyhan, Turkey	Planned 1 million barrels/day	This is under construction, plan to begin exporting in 2005
Central Asia Oil	Turkmenistan through Afghanistan to Gwadar, Pakistan	Proposed 1 million barrels/day	Signed Memorandum of Understanding. Stalled due to instability of the region, but meetings are beginning again
Iran-Azerbaijan	Baku, Azerbaijan to Tehran, Iran	Proposed up to 400,000 barrels/day	Proposed by TotalFinaElf (French oil company)
Kazakhstan-China	Aktyubinsk, Kazakhstan to Xinjiang, China	Proposed up to 800,000 barrels/day	Agreement in 1997, study on feasibility of pipeline stopped because Kazakhstan could not commit to sufficient oil flow
Kazakhstan-Turkmenistan-Iran	Kazakhstan through Turkmenistan to Kharg Island, Iran	Proposed 1 million barrels/day	Feasibility study conducted by TotalFinaElf. A completion date of 2005 set.
Khashuri-Batumi	Dubendi, Azerbaijan to Batumi, Georgia	Up to 160,000 barrels/day	ChevronTexaco cancelled plans to rebuild and expand this pipeline
Trans-Caspian	Aqtau, Kazakhstan to Baku, Azerbaijan (possibly to Ceyhan, Turkey)	N/A	Feasibility study initiated by Royal/Dutch Shell, ChevronTexaco, ExxonMobile and Kazakhstan. Project is stalled due to legal issue of dividing the sea.

**Table 2: Proposed pipelines to export oil from the Caspian Sea**

Most of the oil reserves (about 80%) are located in Azerbaijan and Kazakhstan, which is also where 85% of the new foreign investors have focused their efforts. Three major projects are currently underway in these two countries. In April 1993, the US-owned Chevron signed a \$20 billion deal with Kazakhstan to develop the Tengiz oil field.<sup>15</sup> This was made possible by the opening of the Caspian Pipeline Consortium pipeline, which linked Tengiz, Kazakhstan to Novoriissisk, Russia. In 1994, an \$8

<sup>15</sup> Caspian Sea Region, <http://www.eia.doe.gov/emeu/cabs/caspian.html>

billion, thirty-year contract was signed between the Azerbaijan International Operating Company (AIOC) and ten other oil companies to develop three oil fields in the Caspian Sea region.<sup>16</sup> The major partner in this deal is British Petroleum (BP). In support of this agreement, the Azeri government has backed the Baku-Ceyhan pipeline project. Lastly, the Agip Kazakhstan North Caspian Operation Company (Agip KOC) signed an agreement in 1997 to develop oil found in the Kashagan area.<sup>17</sup> This reserve has proven to be more than originally predicted; conservative estimates put the proven reserves of this region between seven and nine billion barrels.<sup>18</sup>

The Iranian and Russian coasts of the Caspian Sea do not hold many potential reserves. The Russian coast has only about 2.5% of the total reserves, despite the fact that its border constitutes 30% of the Caspian Sea coast.<sup>19</sup>

Most of the pipelines currently used are controlled by Russia. BP is funding the Caspian Pipeline Consortium, but the final destination on this line is still Russia. Many of the proposed pipelines are funded by EU and US companies. This area could be further developed by western investors if the regional instability can be overcome and the legal status of the sea can be determined.

The political instability in this region along with the constant threat of fighting among neighbors is cause for concern for investors in the area. This region is among the most unstable in the world. The civil war in Georgia, the Azerbaijan and Armenian dispute in the Nagorno-Karabakh region, and the current fighting in Chechnya have blocked pipeline expansion westward from the Caspian Sea.<sup>20</sup> Expansion eastward has been hampered by many disputes including the US war on terrorism in Afghanistan, and constant threat of a Pakistan-India border dispute.

Members of the Quartet have tried to create peace among many of these warring factions. The “Minsk Group”, comprised of the US, Russia and France (all members of the Quartet) has played a roll in the Nagorno-Karabakh dispute. They have set up and held over 15 meetings between the two sides and are very close to reaching an agreement that would settle the dispute. On another front, the Chechens have tried to break away from

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<sup>16</sup> Caspian Sea Region, <http://www.eia.doe.gov/emeu/cabs/caspian.html>

<sup>17</sup> Caspian Sea Region, <http://www.eia.doe.gov/emeu/cabs/caspian.html>

<sup>18</sup> Caspian Sea Region, <http://www.eia.doe.gov/emeu/cabs/caspian.html>

<sup>19</sup> Caspian Sea Oil, <http://members.tripod.com/~KELSAGHIR/Caspian/index>

<sup>20</sup> Caspian Sea Region: Regional Conflicts, <http://www.eia.doe.gov/emeu/cabs/caspcconf.html>



the grasp of Russian rule. This has caused much intermittent fighting over the last ten years and has made the pipelines through this region targets for attacks. It was this fear that caused the Russians to build the Chechnya by-pass on the Baku-Novorossiisk pipeline in 2000. Additionally, the Pankisi Gorge area, where Georgia and Chechnya share a border and through which the Baku-Supsa pipeline passes, was tapped once by local thieves. Security measures were increased, but there is still the threat that it could happen again. Two northern sections of Georgia (Abkhazia and Ossetia) have pushed to be free from Georgian rule. The Baku-Supsa and the proposed Baku-Ceyhan pipelines go through regions that are close to this fighting. Although NATO has started negotiations between the two sides, no formal agreement has been made yet.

There is also much turmoil on the eastern side of the Caspian Sea. Afghanistan has been wrought with war for the past twenty-three years. Most recently, the Taliban regime has been ousted and replaced with a UN sanctioned transitional government. This transitional government has started to rebuild Afghanistan and has made an effort to bring a pipeline through this region. In May 2002, Afghanistan signed a tri-partite agreement with Pakistan and Turkmenistan to begin construction of the pipeline.<sup>21</sup> Aside from an unstable Afghanistan, there is the constant threat of war between India and Pakistan over the Kashmir region and since a final destination for the oil from the Turkmenistan-Afghanistan-Pakistan pipeline is India, it would be foolish of India to rely heavily on Pakistani oil. These two situations threaten the feasibility of the pipeline.

Aside from the regional instability, the states bordering the Caspian Sea have also had their disagreements. In July of 2001, an Iranian fighter jet flew over an Azeri sponsored BP exploration vessel in the southern part of the Caspian Sea.<sup>22</sup> According to Iran, the vessel was exploring in Iranian-owned waters. In response, Azerbaijan claimed it had licensed that area in 1998, and Iran had posed no opposition. Nevertheless, exploration in this area has been halted. As this display of force clearly shows, there is much debate as to which country owns which part of the Caspian Sea.

The legal status of the Sea has been questioned since the dissolution of the Soviet Union. In 1921 and 1940, Iran and the Soviet Union agreed to share the Caspian Sea

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<sup>21</sup> Turkmen-Afghan-Pakistan Gas Pipeline Deal Set, <http://www.rense.com/general33/pipe.htm>

<sup>22</sup> Caspian Sea Region: Regional Conflicts, <http://www.eia.doe.gov/emeu/cabs/caspconf.html>

resources, but did not formally demarcate any borders on the sea or seabed. Iran maintains this agreement is still valid, despite the break-up of the Soviet Union. The major issue has become whether to uphold these treaties or whether the UN Law of the Sea Convention applies to the Caspian Sea. This law, as referred to above in the East Timor-Australia and Cameroon-Nigeria cases, was ratified in 1994 and has stipulated that: each coastal country has a twelve-mile (19.3 km) territorial sea and is responsible for managing the territory extending 200 miles (322 km) off shore, waste dumping is prohibited and passage of all ships through international straits is guaranteed.<sup>23</sup> It also states that the demarcation of the borders between two countries in a bed of water is determined by the extension of the median lines that the countries share. (Please see Appendix A for the median line divisions of the Caspian Sea.)

Representatives from each country have met twice to discuss the issue of dividing the Sea and deciding whether the Sea is governed by the UNCLOS. These negotiations were slow to make progress, and as a result, all subsequent meetings have been suspended to give each country time to reach common ground.<sup>24</sup> Instead, three of the five countries have signed bilateral agreements, until further progress toward determining formal boundaries is reached. In 1997, Kazakhstan signed agreements with Azerbaijan and Turkmenistan that divided the sea along the median line. A year later, Kazakhstan signed an agreement with Russia that divided the seabed between the two countries along the median; the waters between the two countries, however, would fall under joint ownership. In 2001, Russia and Azerbaijan signed a similar agreement, where the seabed was divided according to the median, but the waters were jointly owned. Azerbaijan, Kazakhstan, and Russia have agreed that the Sea must be divided and they have agreed to split the Sea on the median lines. Turkmenistan feels that the Sea must be divided, but does not agree wholly with the median line approach and Iran maintains that the Sea does not need to be divided because the treaties signed in 1921 and 1940 are still valid.

Iran maintains that any new treaties signed should be based on the treaties of 1921 and 1940 and that all countries should halt development of the Caspian Sea until the legal status of the Sea is determined. This is impractical since the other four countries have

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<sup>23</sup> Why Hasn't Canada Ratified UN Law of the Sea?, <http://www.trentu.ca/news/view/un.html>

<sup>24</sup> Caspian Sea Region: Legal Issues, <http://www.eia.doe.gov/emeu/cabs/casplaw.html>

continued development. Iran has proposed two alternatives: for Sea development to be a joint venture among all five countries (the “condominium” approach) or to divide the Sea equally among the five countries – each would receive 20% of the Sea.<sup>25</sup> If the countries divided the Sea into equal sectors based on the agreements struck by Azerbaijan, Kazakhstan and Russia, Iran would only receive about 13% of the Sea, which is still less than the 20% it wants.<sup>26</sup>

Turkmenistan has agreed that the Sea must be divided, but opposes the median line approach taken by Azerbaijan, Kazakhstan, and Russia, even though it has signed such a bilateral agreement with Kazakhstan. One of the reasons this method is opposed by Turkmenistan is that it does not account for geographic deviations. For example, the small Absheron peninsula in Azerbaijan juts out into the Sea and allows Azerbaijan to have more of the Sea as per the median line division. This lessens the area allotted to Turkmenistan – Azerbaijan’s across-the-sea neighbor. Opposition to this median line division also stems from the lack of governance of oil fields on the borders.

Turkmenistan and Azerbaijan both lay claim to a particular oil field on their border, Kyapaz to the Azeri and Serdar to the Turkmen.<sup>27</sup> Each country has invoked valid legal agreements that give them sole development rights. Turkmenistan claims it to be part of an agreement struck in 1998 and Azerbaijan claims that it owns the field as per a 1970 Soviet Union division of the Caspian.<sup>28</sup> Therefore, Turkmenistan has proposed yet another way to divide the Sea. Each country would own about 45 miles along their coasts and the rest of the Sea would be open to all five countries (Please see Appendix A for the Sea divisions in this plan).<sup>29</sup>

Another significant legal issue facing the Caspian Sea region is an environmental one; industrialization and drilling for oil in the area has lead to spills, which have affected the ecological system. In addition, many of the refineries in the region are from the Soviet Union era; they are old and desperately need to be upgraded or repaired. Pesticides used on-shore have run off into the Sea and untreated waste from the Volga

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<sup>25</sup> Caspian Sea Region: Legal Issues, <http://www.eia.doe.gov/emeu/cabs/casplaw.html>

<sup>26</sup> Putin’s Caspian Diplomacy, <http://www.gasandoil.com/goc/news/ntc10882.htm>

<sup>27</sup> Caspian: Outlook Dims for Summit, <http://www.rferl.org/nca/features/2001/05/15052001121237.asp>

<sup>28</sup> Caspian Sea Region: Legal Issues, <http://www.eia.doe.gov/emeu/cabs/casplaw.html>

<sup>29</sup> Caspian Sea Region: Legal Issues, <http://www.eia.doe.gov/emeu/cabs/casplaw.html>

River has been dumped into the Caspian Sea for years.<sup>30</sup> In addition, as this region continues to grow from foreign investment, so does pollution. For all of these reasons, the five countries have created the Caspian Environment Program (CEP), which is responsible for “protecting and managing the environment of the Caspian Sea”.<sup>31</sup> It is also for environmental reasons that Russia and Iran have opposed the creation of a trans-Caspian pipeline. Discussion and work on this type of pipeline will cease until a more formal arrangement is made to govern safely the relevant environmental and ecological issues.

Another environmental issue at stake for the Caspian Sea oil is the current state of the Bosphorus Strait. This is the termination point for many pipelines through Turkey and is the main route out of the Black Sea ports, such as Novorossiisk, Russia. Turkey claims these straits are over-burdened with oil tanker traffic already and by adding more pipelines, the environment is at an even greater risk; there is an increased chance of oil tankers colliding.<sup>32</sup> This would be a major reason not to increase the capacity on the existing pipelines to Russia or continue with plans to make the Baku-Ceyhan pipeline and Trans-Caspian pipeline.

Another serious issue facing the Caspian Sea region is the US embargo and sanctions against Iran. The Clinton administration enacted executive orders that created a total embargo against US – Iran trading. The reasons given for this embargo were as prevalent in the late 1990’s as they are today; the US does not condone Iran’s support of international terrorists, its desire to have and use weapons of mass destruction, and its attempts to undermine the Middle East peace process.<sup>33</sup> As such, the executive orders ban US businesses, but not their foreign subsidiaries, from trading, financing or supporting in any way the development of Iran’s oil reserves.<sup>34</sup> This has had a significant impact on the US oil industry as projects originally started by US companies have now gone to other foreign companies. For example, Conoco began developing Iran’s Sirri

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<sup>30</sup> Caspian Sea Region: Environmental Issues, <http://www.eia.doe.gov/emeu/cabs/caspenv.html>

<sup>31</sup> Caspian Sea Region: Environmental Issues, <http://www.eia.doe.gov/emeu/cabs/caspenv.html>

<sup>32</sup> Caspian Sea Region, <http://www.eia.doe.gov/emeu/cabs/caspian.html>

<sup>33</sup> Caspian Sea Region: Legal Issues, <http://www.eia.doe.gov/emeu/cabs/casplaw.html>

<sup>34</sup> A review of US Unilateral Sanctions Against Iran, <http://www.mafhoum.com/press3/108E16.htm>

field in 1995, before these executive orders were issued. After these orders, Conoco was forced to pull out and the project went to TotalFinaElf of France.<sup>35</sup>

The Caspian Sea region clearly faces many roadblocks to realizing the full potential of the oil reserves it holds. The root cause for many of these problems stems from the lack of defined legal status of the Sea. As such, this case should be reviewed by the ICJ, which would base its decision on the UNCLOS. The ICJ would be responsible for determining whether the Caspian Sea falls under this governance, since the Caspian is a land-locked body of water and does not empty into any international waterways. The major obstacle here could be the fact that the Caspian is not wide enough to accommodate the UNCLOS 212-mile territory allotted to each coastal nation, as the widest width of the Caspian is only 270 miles.<sup>36</sup> Nevertheless, with so much economic stake and political instability in the region, the ICJ must get involved and should rule that the Caspian Sea can be governed by the UNCLOS. This would end the debate of which country owns what part of the Caspian and would split the region by median lines. This would also uphold the current bilateral agreements between three of the five countries, namely Azerbaijan, Kazakhstan and Russia. These countries account for a majority of the oil reserves and therefore, most of the economic benefit from the region. Turkmenistan's only current problem with this arrangement lies in the demarcation of the boundaries (i.e. how to accommodate geographic abnormalities and borderline oil fields). This issue is very important to the future of Turkmenistan oil and would need to be addressed by the ICJ.

Iran is the only one of the five countries that would have a major problem with this arrangement, as it would stand to lose much revenue. The old agreements of 1921 and 1940 between countries that now have changed borders would be rendered invalid and this would be in accordance with other ICJ precedents and UN policy. In the case of East Timor and Australia, the ICJ will discard the Timor Gap Treaty, since the two countries that originally signed the treaty (Indonesia and Australia) no longer border the Timor Gap. This decision would also give most of the Timor Gap to East Timor, leaving Australia with little oil to develop and export. A similar situation exists in the Caspian

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<sup>35</sup> Caspian Sea Region: Legal Issues, <http://www.eia.doe.gov/emeu/cabs/casplaw.html>

<sup>36</sup> Caspian Sea, [http://www.gia.az/html/casp\\_sea.html](http://www.gia.az/html/casp_sea.html)

Sea region, where since the dissolution of the Soviet Union, three new countries have emerged and have drastically changed the borders in the region. As the borders change, so must the governing treaties.

This decision will not be easy to implement and thus the UN must take an active role in the region. As the Cameroon and Nigeria conflict illustrates, a special UN commission to oversee the implementation of the ICJ decision is feasible and productive. Although Nigeria did not support the decision as handed down by the ICJ, the UN involvement has brought the two nations together to work out an agreement that will both uphold the ICJ decision and is cognizant of the sentiments of the region. The Caspian Sea region is complicated by the fact that there are five countries and five viewpoints to consider, as opposed to the two in the Cameroon and Nigeria case. Therefore, it is imperative that the UN become involved to broker a working agreement that still upholds the ICJ decision. The ramifications of no UN involvement could be disastrous; Iran may feel the need to use its weapons of mass destruction as a protest of the ICJ decision. In an already war torn region, this would further diminish any chance of peace in the Middle East or lifting of the US embargoes.

The Quartet has much to gain from involvement in this region. With the dissolution of the Soviet Union, the economic opportunities are plentiful. The Russians will benefit from the use of its pipelines and oil fields in the region. Moreover, with the continued increased development of oil fields in Azerbaijan, Kazakhstan and Turkmenistan, the Russians will gain even more by allowing those countries to use the existing Russian pipelines, both from taxes for use of the pipeline and from forging new economic relationships with the former Soviet republics. With the dissolution of the Soviet Union has come an opening of new markets, which the EU and US have started to exploit. From the EU, TotalFinaElf and BP have already played a significant role in developing oil fields in the region. Chevron and ExxonMobile are among the US players in the region. The UN, representing the rest of the world, stands to benefit greatly from this oil.

The importance of Middle Eastern oil would diminish with the increase in production of Caspian Sea oil. With the current situation unfolding in the Middle East, an alternate source of oil would be beneficial to world markets. The Caspian Sea oil

would help the EU, as the oil is geographically close to those markets. This is part of the reason EU oil companies have taken such a large stake in this new market. Additionally, if new pipelines were constructed east of the Caspian, a new Asian market could be developed. The Asian demand for oil is expected to grow by 10 million barrels a day over the next ten to fifteen years.<sup>37</sup> With these new pipelines, the Asians would get the oil they need and the investors in the region would benefit, by directly profiting from these oil sales and from the increase in industrialization of the Asian markets. However, there are some major problems, like geography and political instability, which must be overcome before these pipelines to Asia are realized.

One possible route out of the Caspian Sea region toward Asia is through Kyrgyzstan and Tajikistan. The countries are mountainous and this could make laying down the pipeline difficult. Additionally, the Turkmenistan, Afghanistan and Pakistan pipeline is unlikely to be built for a number of reasons. This pipeline was originally proposed in the late 1990's by the US oil company Unocal, but was cancelled due to civil war in Afghanistan. Now, the project has received more attention, as a "pipeline for peace"<sup>38</sup>, but the situation in this region of the world is still as unstable as it was nearly five years ago. The Afghanistan government currently in place is a UN transitional government; a new Afghani government will not be elected for at least another year. In addition, the current Pakistani regime in power, under General Pervez Musharraf, has become more militant. One of the final destinations of oil from this pipeline would be India. However, in recent years, India and Pakistan have experienced increasing tensions, especially in the Kashmir region. Therefore, it would be imprudent of India to create a dependence on Pakistani oil.<sup>39</sup>

When the legal status of the Sea is determined, it will be possible to work on the other issues present in the area. The legal status of the Sea will no doubt bring economic benefit to all five countries from foreign investors. This will help rebuild the current outdated refineries and thereby help the local environment. In addition, many of the profits derived from this oil will go directly back into the local economies, which may lessen the

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<sup>37</sup> Caspian Sea Region, <http://www.eia.doe.gov/emeu/cabs/caspian.html>

<sup>38</sup> Afghanistan Eyes a Pipeline, but Prospects Look Dim, <http://www.eurasianet.org/departments/business/articles/eav060602.shtml>

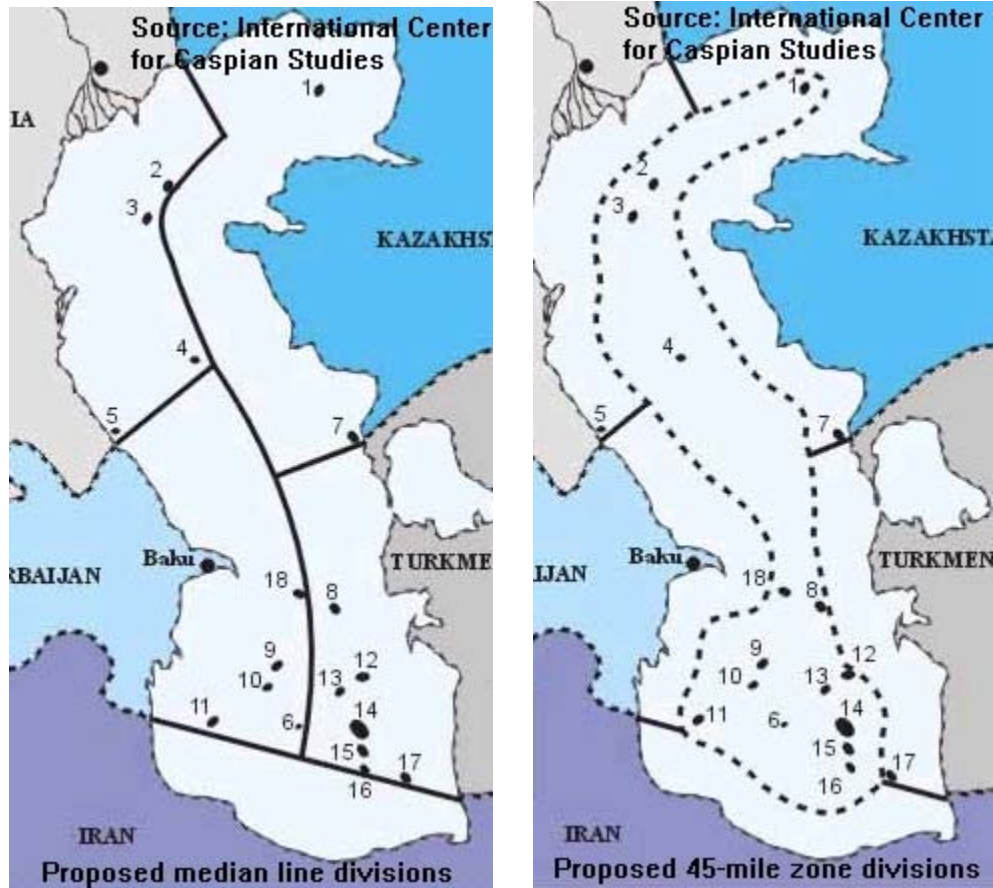
<sup>39</sup> Afghanistan Eyes a Pipeline, but Prospects Look Dim, <http://www.eurasianet.org/departments/business/articles/eav060602.shtml>

need to target pipelines for attacks or the desire to take oil unlawfully. With this newfound economic growth and stability, political tensions may also be lessened which will give peace in the Middle East a fighting chance and may relieve tensions in the war-torn areas of Chechnya and Georgia.

The Caspian Sea region is rich in oil, with over 200 billion barrels in possible reserves. However, because this Sea is landlocked, many problems impede exportation of these rich reserves. With the dissolution of the Soviet Union in 1991, a new oil market was opened in the Caspian Sea region and the problem became splitting the Sea among the five bordering countries so that all five were appeased. At the heart of this problem is the legal status of the Sea (whether the Sea is governed by UNCLOS) and a formal agreement has yet to be brokered among all five countries; instead, there have been bilateral agreements between Azerbaijan, Kazakhstan and Russia. However, with the help of the ICJ and the UN, an agreement on the legal status of the Sea can be properly instituted. This approach can work, as seen in the Cameroon and Nigeria case decided just a few years ago. The Quartet has much to gain from an ICJ and UN brokered deal; pipelines and new economic markets are available and are ripe for further exploitation. Proper development of the oil in this region would also decrease the demand on Middle Eastern oil. ICJ and UN involvement in this region could help to bring economic stability to a region desperately in need of it; and from this, political stability could follow.



**Appendix A**  
**Proposed Divisions of the Caspian Sea**



These are from the Energy Information Administration.

(Caspian Sea Region: Legal Issues, <http://www.eia.doe.gov/emeu/cabs/casplaw.html>)

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