

## Regional Report

# Russia's Policy Toward the Caspian Sea Region and Relations with Iran

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### Summary:

Following a break in the 1990s, Russia has put renewed emphasis on its relations toward the Caspian region, paying special attention to Iran. The opening of the Baku-Tbilisi-Ceyhan pipeline in 2006 was a major blow to Russia's dominance in the Caspian as it broke the previous Russian monopoly on transporting energy. Russia is responding by expanding its military presence in the Caspian and working with Iran on preliminary plans to establish a "Natural Gas OPEC."

### Historical and Geopolitical Context

During the 1990s, Russia managed to maintain a monopoly on the export of energy resources from the Caspian area. In 2001, the Caspian Pipeline Consortium completed construction of a pipeline from the Kazakh Tengiz deposit to the Russian port at Novorossiisk. In parallel, Russia built the Blue Stream natural gas pipeline from its territory to Turkey. During this time the Caspian countries still held out the hope that they would be able to divide up the resources of the sea according to the rules of international law thereby preventing the widespread militarization of the region.

However, these plans fell apart with the beginning of the new decade. Upon coming to power, President Vladimir Putin made the Caspian a high foreign policy priority for Russia, appointing Viktor Kalyuzhnyi as his special representative to the region with the rank of deputy prime minister. The US also began to pay renewed attention to the Caspian in the wake of the 9/11 terrorist attacks. Ultimately, efforts to divide the resources in the area collapsed with the failure of the Caspian states to come up with a solution at the Ashgabat summit in April 2002. Subsequent efforts to revive the talks have failed.

Iran has always been a key Middle Eastern state, connecting the Caspian and Indian oceans at the heart of Eurasia. It lies on the planned North-South transportation corridor, linking India with Scandinavia, through an extensive railroad and port infrastructure. Iran is also an energy giant with massive reserves of oil and natural gas, leading to current production levels of 4 million barrels of crude oil a day.

### Russia's Monopoly Destroyed

The situation in Caspian Sea changed dramatically in 2006, when the completion of the Baku-Tbilisi-Ceyhan pipeline ended Russia's energy transportation monopoly in the region. British Petroleum announced the beginning of this project in September 2002 and

construction began in February–March 2003. In June 2006, the first oil from Azerbaijan reached the Turkish port, taking a route that completely bypassed Russia.

The construction of this pipeline was a significant blow to Russian interests in the Caspian region. Notably, the participants in the project never hid its anti-Russian and anti-Iranian thrust, announcing that it was important from the strategic and security points of view.

### Militarization of the Region

One of the key consequences of the pipeline construction was the militarization of the entire Caspian region. According to traditional political logic, international trade routes often take on a military-strategic character.

Russia began to reassert its position in the Caspian when Putin visited Astrakhan in April 2002 on his way home from the unsuccessful summit in Ashgabat. In Astrakhan Putin declared that the Caspian represented one of Russia's key military priorities and that Russia would send more military resources to the region and more professional warriors. In August 2002, Russia organized a large-scale military training exercise with the Caspian fleet. In terms of their size, these maneuvers were unprecedented. Since Putin announced the exercise immediately after the failed Ashgabat summit, it was clear that the Russian leadership sought to demonstrate Russia's military predominance in the region and make the other Caspian states more compliant to Russian interests.

A no less important feature of the exercise was that the military sought to defend Russian energy resources in the Caspian. Thus, the defense minister commanded the exercises from the Astra drilling rig, which belongs to Lukoil.

Since then, Russia has tried to coordinate, and even lead, the military forces of the Caspian countries. In August 2005 Russia and Kazakhstan carried out a joint

exercise named “Caspian Anti-Terror” in the Kazakh port of Aktau. During a visit to Baku in January 2006, Defense Minister Sergei Ivanov announced that a new military bloc could be created on the Caspian in the future. He envisioned this bloc as a single structure of the five Caspian governments, Azerbaijan, Iran, Kazakhstan, Russia, and Turkmenistan.

Russia has the primary interest in creating a military group under the provisional name of “Kasfor” since it could only be created on the basis of Russian resources. However, it will be difficult for Russia to carry out such an ambitious program. The Caspian governments are each engaging in an arms race since they do not trust each other. They are actively seeking military aid not only from Russia, but also the NATO countries and China.

Moreover, the Iranian factor is further destabilizing the situation on the Caspian. The Islamic Republic is expanding its presence in the Caspian as part of its wider military program. In particular, Iran increased its naval resources in the Caspian by transferring assets from the Persian Gulf. Additionally, in 2003 Iran adopted a new policy for tanker ship construction and is planning to build a tanker flotilla in the Caspian.

### Establishing a Gas Alliance with Iran

Beyond its military initiatives, Russia is today seeking to establish exclusive relations with Iran in searching for and producing natural gas. In June Iranian President Mahmoud Ahmadinejad proposed to President Putin that they jointly determine the price for natural gas exported to Europe. Putin supported

this initiative since Moscow is interested in preventing, or delaying the appearance of, Iran as a new competitor in the European Union gas market.

The combined efforts of the two countries reflect an attempt to create something like a natural gas OPEC, in which the Russian energy giant Gazprom would play the leading role. Additionally, in June the Russian State Duma ratified a bilateral agreement with Algeria in which Russia forgave the African government’s debt of \$4.7 billion in exchange for which the Algerian energy company Sonatrak signed a wide-ranging cooperation agreement with Gazprom. Later, Gazprom purchased stakes in several natural gas industry companies in Libya.

The efforts of Iran to form a gas OPEC demonstrates Iran’s plans to strengthen its position on the international stage. All of these events are aimed at a specific goal: Iran’s leadership and the Kremlin, working through Gazprom, are seeking to block European efforts to diversify the sources of their natural gas imports. Algeria, Libya, and Iran are precisely the supplier countries that the Europeans named as possible alternative sources of supply to Russian gas. Algeria already supplies 30 percent of gas imports to Europe.

Supporting Iran in its effort to break the American blockade on its exports of gas to the European market has some benefits for Russia. In particular, Russia hopes that Iran will continue to support Russian efforts to strengthen its influence in the Caspian-Black Sea superregion.

*Translation from the Russian and editing:  
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#### *For further reading:*

- Yadviga Semikolenova, “Caspian Oil: Changing the World’s Energy Outlook,” *Beyond Transition Newsletter* 17, No. 2 (April–June 2006): 11, <http://www.cefir.ru/index.php?l=eng&id=159>
- Jeronim Perovic, “From Disengagement to Active Economic Competition: Russia’s Return to the South Caucasus and Central Asia,” *Demokratizatsiya* 13, No.1 (Winter 2005): 61–85, [http://findarticles.com/p/articles/mi\\_qa3996/is\\_200501/ai\\_n13640837](http://findarticles.com/p/articles/mi_qa3996/is_200501/ai_n13640837)

*Source for the maps overleaf: CIA (maps available at <http://www.eia.doe.gov/emeu/cabs/Caspian/Maps.html>)*

Caspian Region oil pipelines



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