

The OSCE and the Multiple
Challenges of Transition

The Caucasus and Central Asia

Edited by
FARIAN SABAHİ and DANIEL WARNER

ASHGATE

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Chapter 8

Oil Diplomacy in the Caspian: The Rift Between Iran and Azerbaijan in Summer 2001

Farian Sabahi*

This chapter will discuss the recent evolution of oil diplomacy in the Caspian region. As a case study, it will focus on the difficult relationship between Iran and Azerbaijan, the first republic to have gained independence in 1991.¹ In particular, it will examine what happened during the summer of 2001, when the Iranian air force ordered two BP oil exploration ships to leave a disputed oil field.

This is an interesting case because the two countries are united by a common faith – Shia Islam – but deeply divided by common interests in the Caspian Sea. This has recently been a hot topic, not only because of the rift which developed during summer 2001, but also for the exchange of visits to Baku and Tehran undertaken by the Iranian Minister of the Interior Musavi Lari and by Azerbaijani high officials.

Due to their financial resources, oil companies have always played a primary role in the politics and economics of the countries in which they operate. In the Middle East and the Caspian region, in particular, oil companies' action is second only to that of the great powers. Thus, they have an impact not simply on the economics of the host country, but also on its politics and society.

The major western oil companies are transnational organizations, based in the industrialized countries of Europe and North America. From their headquarters, they organize their work in a triangular relationship involving their home governments and the host countries. Such a triangular relationship means that, when their interests coincide, oil companies do not hesitate to put pressure on their governments to undertake political action.

That was the case with Iran in 1953, for instance, when the American oil companies put pressure on Washington to overthrow premier Mossaddeq, who nationalized the Iranian oil industry. More recently, in 1992 the French president François Mitterrand entered an agreement with Russia only after Moscow had signed an oil agreement with the French oil company Elf Aquitaine.²

Though particularly relevant to Africa, Elf is probably the best example of oil diplomacy. Created in 1967 in order to guarantee energy resources for France, Elf

has played the role of 'ministry of oil' and has assured the political control of France's ex-colonies.³ Various French political parties have invested in Elf and, at the same time, have developed personal contacts with the African heads of state. Are African politicians the link between oil revenues and the funding of political parties? In 2001 such a trend obliged the French judicial authority to investigate the case.⁴

This pattern of oil diplomacy, often called neo-colonialism, has been in place since the mid-1990s. Following the re-election of the US president Bill Clinton in 1996, Washington implemented a more active policy in the field of energy. One of the results of such a policy has been the request, put forward to the American oil companies, to follow the guidelines of the Department of State in investing in exploration and transport routes, even if such guidelines were not in line with their cost-benefits analysis. This is the case, for example, regarding the passage of pipelines to avoid the Islamic Republic of Iran, with which Washington has not enjoyed good relations since the Islamic revolution of 1979 and the consequent hostage crisis. Events linked to 11 September 2001 and to the war in Afghanistan have not contributed to improve ties between Tehran and the USA.⁵

The Clinton administration engaged in sponsoring the Baku–Tbilisi–Ceyhan (BTC) pipeline. Taking off from the Azerbaijan capital, this pipeline is intended to go through Georgia and arrive at the Turkish port of Ceyhan, on the Mediterranean Sea. According to the latest news, building started on 18 September 2002 and will be completed by 2005, on time and budget (US\$2.8–2.9 billion).⁶

An alternative to the BTC pipeline is the pipeline from Baku to Supsa, a Georgian port on the Black Sea. This pipeline is 946 km long and has been operating for two years without incident. The cost of a barrel of oil via the Baku–Supsa pipeline is 0.43 dollars, the cheapest price available in the region. In comparison, the Baku–Novorossiysk route is 1346 km long and the transport cost per barrel is 2.15 dollars. With a pipeline 1700 km long, the BTC project faces three main difficulties: it is supposed to go through a politically unstable region; passing through a mountainous area, it needs special technical requirements; and, since the cost is estimated at between three and four billion dollars, financing is not easy. Financing has, in fact, not been finalized yet and US financial aid is expected but not certain.

After the 11 September attacks relations between the USA and Azerbaijan improved. At the same time, Washington and Tehran missed an important chance for reconciliation. In recognition of Azerbaijan's allowing American warplanes to fly over the country en route to Afghanistan, two events took place. First, in mid-December 2001 the defence secretary Donald Rumsfeld travelled to Baku on an official visit. He declared 'the US wants improved military ties with Azerbaijan and Armenia, at the crossroad of Central Asia, the Middle East and Russia, to help fight terrorism'.⁷ Second, on 11 January 2002 US president George W. Bush signed a law repealing the aid ban to Azerbaijan, which was imposed under pressure from the Armenian lobby in Washington, following the war between Yerevan and Baku for Nagorno-Karabakh.

In 2002 Nagorno-Karabakh was in the spotlight. In fact, January 2002 marked the

first anniversary of Azerbaijan's membership of the Council of Europe. Baku joined with Armenia. The parliamentary assembly of the Council of Europe, based in Strasbourg, met on 24 January 2002 and discussed the issues which still need to be resolved: human rights, democratization, social hardship, the 14-year conflict with Armenia over Nagorno-Karabakh⁸ and the legal status of the Caspian Sea.⁹

THE STATUS OF THE CASPIAN

From 21–25 January 2002 the Iranian minister of the interior, Musavi Lari, undertook an official visit to Baku. He was at the head of a political and security delegation. What was at stake? The energy resources of the Caspian Sea. The Caspian is the world's largest inland sea. It is 1200 km long and 210–435 km wide, and supports nearly 11 million people. Environmental problems have already emerged and the potential risks to the Caspian have been compared to those of the Aral. The production of oil is today 1.3 million bpd, exports 800 000 bpd, and the potential production increase foreseen is 3 million bpd by 2010 and 5 million bpd by 2020.

Until the collapse of the Soviet Union in 1991, the Caspian Sea was simply divided in two parts (condominium) along the Astara–Hassangoli line, between Moscow and Tehran, who signed the Treaty of Friendship in 1921 and the Treaty of Commerce and Navigation in 1940.¹⁰

Following the collapse of the Soviet Union, the littoral states became five. The actors involved can be classified as riparian states (Iran, Azerbaijan, Russia, Turkmenistan and Kazakhstan), the inner circle (Georgia, Armenia, Turkey, Uzbekistan and Afghanistan), the outer circle (China, India, Pakistan, Saudi Arabia, the Gulf states, Israel, Greece, Bulgaria, Romania and Ukraine), and external actors (the United States, the European Union, Japan and the East Asian states).¹¹

The Caspian Sea is located at the crossroads of three civilizations – Islamic, western and Slavic-Orthodox – a factor that does not contribute to the stability of the region. Regarding the legal status of this basin, there are two opposing views: its division among riparian states (sea) or shared as a common property, on the principle of joint sovereignty (lake, condominium). A two-day conference took place in Moscow on 23–24 January 2002, attended by delegates from Iran, Russia, Kazakhstan, Azerbaijan and Turkmenistan. So far, Russia, Kazakhstan and Azerbaijan agree on the riparian (sea) position while Iran and Turkmenistan favour the lake or condominium option.¹²

From the legal point of view, we are faced with the following issues. First, can the new riparian republics (Azerbaijan, Russia, Turkmenistan and Kazakhstan) be regarded – under the 1978 Vienna Convention on Succession of States – as the successor states of the Soviet Union? And thus, are the new republics bound to the regime established by the treaties signed by Iran and the Soviet Union in 1921 and 1940? So far, only the Russian Federation has been considered the successor of the

Soviet Union but – according to the Vienna Convention – the other republics are also bound to those old treaties. Second, under international law, is the Caspian a sea or a lake? The 1982 Convention on the Law of the Sea provided a general definition of ‘enclosed seas’ (articles 122 and 123) but did not mention the Caspian.¹³ This has been the subject of a long debate among experts, especially because the Caspian is linked to the Black Sea, to the Baltic and to the White Sea by a complex network of lakes, rivers and canals. Here are the positions of the main scholars. On the one hand, Vinogradov and Wouters believe that the Caspian and Aral Seas cannot be classified as enclosed seas because they are not connected to another sea or to the ocean.¹⁴ On the other hand, Pratt and Schofield understand the second part of article 122 as allowing the Caspian to be qualified as an enclosed sea.¹⁵

What changes, if the Caspian is a sea OR a lake? As a sea, the sovereignty of the riparian states would entitle them to have total jurisdiction over the internal waters and territorial sea, up to a distance of 12 nautical miles from the coast. Beyond these 12 nautical miles and up to 24 nautical miles, the area would be called a *contiguous zone*. The role of the state would be limited to police, customs, fiscal, immigration and sanitary functions. Azerbaijan sees the Caspian as a sea, a status giving Baku potential reserves of oil over 2.5 billion tons and 1500 billion cubic metres of gas.

As a lake, the sovereignty of the riparian states is limited within territorial waters. The rest can be exploited in common, and also by other powers. Due to the absence of a treaty or convention for lakes, the riparian states should turn to state practice. Lakes are normally divided along the median line, but other criteria might apply. This is the option preferred by Iran and highly disfavoured by Azerbaijan, due to the fact that its reserves would fall to 1.5 billion tons (oil), while gas reserves would remain the same.

The legal status of the Caspian Sea is particularly relevant when it comes to the border between Iran and Azerbaijan, because the offshore oil fields explored by BP are in a disputed area south-east of Baku. Moreover, Russia can make concessions on the legal status of the Caspian, in exchange for decisions concerning transport routes. In this regard, Azerbaijan is trying to limit Russia’s influence by pushing for the development of oil pipelines by passing Russia.

THE RELATIONSHIP BETWEEN IRAN AND AZERBAIJAN

Iran and Azerbaijan share common linguistic and religious features. The Azeri dialect is shared by millions of ethnic Azeris living in the neighbouring provinces of north-western Iran.¹⁶ The two areas have been divided along the Arax river since the Turkmanchai Treaty of 1828.

Since 1982 Soviet propaganda has adopted the slogan ‘One Azerbaijan’.¹⁷ Therefore, the authorities of the Islamic Republic fear the influence that Baku can play in Iranian Azerbaijan.¹⁸ In this regard it has to be remembered that Iranian Azeris are perhaps the best integrated minority in the country. From the historical

point of view, this can be explained by the fact that the Safawid dynasty was originally from Azerbaijan. Nowadays, large parts of the *bazaar* in Tehran and of the high ranks of the armed forces are Azeris. Also the *Rahbar* (Supreme Leader) ayatollah Ali Khamenei is a native of Khameneh, a town in the West Azerbaijan province. Needless to say, he speaks fluent Azeri.

Moreover, taking into consideration the fact that Azeri falls into the group of Turkish languages and dialects, it is worth noting how Baku has played with its ethnic and linguistic vicinity to Turkey. In the immediate aftermath of the collapse of the Soviet Union, Turkey moved faster and more successfully than Iran.¹⁹ At the same time, another republic shares some features with Turkey and others with Iran: Tajikistan professes Sunni Islam and, at the same time, is the only large nation in the region to speak Persian, though it does not share a border with the Islamic Republic.

Even before Baku’s independence, the Turkish press stressed the ‘destructible ties between Azerbaijan and Turkey based on common race, language and culture’. Following Azerbaijan’s declaration of independence on 30 August 1991, Ankara was the first to recognize it, on 9 November 1991. The continuous delay in Turkey’s admission to the European Union and its loss of importance after the end of the Cold War enhanced the relevance of the Caucasus as a crucial zone.²⁰

However, how might Turkic identity and Shiite belief be reconciled with each other? In this regard, Volker Adams underlines the nationalist dimension of the Azeri confession of Shia Islam, due to the fact that they face the ‘problem that their belief might be interpreted as an obstacle to unity in the Turkic-Islamic world’.²¹

Generally speaking, the leaders of the new republics fear and reject not only Islamic fundamentalism, but also political Islam. As a consequence, the Islamic Republic of Iran is viewed with suspicion, not least because of the ayatollahs’ propaganda in other Muslim countries and their attempts to export the revolution.²²

In late June 2001 President Aliyev decreed the creation of a state committee for relations with religious organizations. The primary aim of this committee is to monitor the activities of religious organizations – both Muslim and Christian – engaging in missionary activities. At the same time, a series of restrictions has been imposed on the length of time foreigners can spend in the country and the amount of religious literature they are allowed to bring in. The two main targets of this new policy are Shiite religious emissaries from Iran and Saudi ulama.²³

From a historical perspective, with President Aliyev’s arrival in 1993 pan-Turkish ideologies lost ground and, at the same time, the role of Islam increased as an element of national identity. Although Aliyev did not intend to create an Islamic Republic, faith served national interests. Religious schools have been opened, new mosques have been built, and special facilities have been granted to pilgrims wanting to travel to Mecca. Aliyev himself became the first Azerbaijani leader since 1920 to perform the pilgrimage.²⁴

After seven decades of atheism, to what extent do the people of Azerbaijan believe in religion? Religion is a moral attitude and, according to most Azerbaijanis, should not interfere with their economic and political life. According to a survey

conducted from September 1999 to February 2000, out of a thousand interviewees, *believers* constituted 63.4 per cent of all respondents, 6.7 per cent considered themselves *firm believers*, 10.4 per cent were *hesitant*, 7.1 per cent were *non-believers*, 8.6 per cent were *indifferent* to the issue and 3.8 per cent *firm atheists*. At the same time, in Azerbaijan the level of religious knowledge is limited: 18.4 per cent of interviewees declared themselves absolutely unfamiliar with the *sharia*, and only 6.1 per cent stated a very good knowledge of Islamic principles.²⁵

Another interesting question is to what extent are the people of Azerbaijan loyal to Shiism? According to a western diplomat in Baku, religion is a secondary issue to people, even though there has been a growing re-engagement in considering Islam as a spiritual dimension that might also turn out to be useful to the regime. Unemployment, underdevelopment and wide income gaps are sources of discontent and disaffection, especially amongst the youth. Such circumstances have often led to radicalism. Therefore, Azerbaijani authorities are seriously worried about religious activities, especially about those carried on by mullahs from Iran and Saudi Arabia, whose loyalty is certainly not to the new-born independent Republic of Azerbaijan.²⁶

As already mentioned, both Iran and Azerbaijan profess Shia Islam. In Iran Shiism has been the state religion since the beginning of the sixteenth century and the rise of the Safawid dynasty. Furthermore, since 1979 the official form of government of the country is a theocracy based on the concept of *velayat-e faqih* (government of the jurist). In contrast, since the end of the nineteenth century, a modernist, liberal and anti-clerical attitude has developed in Azerbaijan. During its brief independence in 1918–20, Azerbaijan was a state as lay as Kemalist Turkey.

Due to the Soviet invasion, from the 1920s onwards Azerbaijan was heavily exploited by Moscow, which was perceived as a colonial power, not least because 'kerosene was cheaper in Tiflis than in Ganje'.²⁷ In the Gorbachev era the Soviet attitude towards Baku did not improve: the central government used to buy 'Azerbaijani oil cheaper than mineral water' and 'despite its disproportionately large contribution, Azerbaijan gets an investment from Moscow of 4.3 billion rubles, compared with 6.3 billion for each neighbouring republic'.²⁸

Needless to say, 70 years of imposed atheism had a major impact on the cultural and religious customs of the local population. As far as I have seen during my fieldwork in summer 2001, in Azerbaijan it is almost impossible to find a woman wearing the *chador* and rare to see one with the *hejab*. Yet people consume – and offer – alcoholic drinks (vodka) at any time of the day, even in remote parts of the country. As a matter of fact, at the time of the Soviet Union Azerbaijan was the major grape-producing country in the USSR.²⁹

Now, the main issue is the presence of energy resources, which is causing many rivalries in the Caspian area, mainly among Russia, Turkey and Iran.³⁰ In particular, the independence of Azerbaijan, populated by only 8 million people and endowed with vast oil resources, was perceived as a threat by Iran. At that time, the Islamic Republic was in a state of economic decline, partly because of mismanagement and

partly because of US sanctions, extended for another five years in July 2001.³¹ Tracing a parallel between the Turkish policy to avoid the establishment of a Kurdish state and Iran's attitude towards the new Republic of Azerbaijan, Cornell has observed that Tehran would probably have preferred 'the continuation of the pattern established with the 1828 Turkmenchai Treaty which confirmed the Russian conquest of substantial Azeri-populated areas'.³²

In this regional context alliances can change and, in this respect, religion clearly does not matter. In Abkhazia and Turkish Kurdistan, Russia backs the Sunni rebels. Turkey's aid goes to Georgia and Ossetia. Iran is helping Armenia – a Christian country – against the double blockade from Turkey and Azerbaijan, providing Yerevan with electricity, goods and access to foreign markets. At the same time, Tehran refused to assist the Chechens and played down the Islamic element. The Chechen conflict put Iran in a particularly difficult position because in 1999 Tehran held the presidency of the OIC (Organisation of the Islamic Conference). Nonetheless, at the outset of the conflict the Iranian foreign minister Kamal Kharrazi declared that Iran considered the war 'Moscow's internal affair'. As a response, the London-based newspaper *Al-Sharq al-Awsat*, close to the Saudi elite, 'slammed Iran for being guilty of stabbing the Chechen Republic in the back'.³³

In this context, Baku's foreign policy can be read through the lenses of religion. In a way, Azerbaijan is too Shia to be completely pro-Turkish, not Shia enough to be completely pro-Iranian, but sufficiently Shia to avoid becoming a satellite of Moscow.³⁴

Focusing on the relationship between Azerbaijan and Iran and, in particular, on energy resources, Iran holds 9 per cent of world reserves of oil, equivalent to 93 billion barrels, and 14.9 per cent of world reserves of gas, that is 21 000 billion cubic metres. In comparison, Azerbaijan accounts for 7 billion barrels of oil (0.7 per cent of world reserves) and 850 billion cubic meters of gas (0.6 per cent of world reserves).³⁵ Furthermore, Azerbaijan has the potential capacity for an additional 8 to 14 billion barrels. Total estimated reserves for the Caspian region have been the object of discussion. According to Wood Mackenzie, they amount to 26.01 billion barrels of proven and 58 to 64 billion barrels of possible oil reserves, while according to Chegrouche the total Caspian reserves are 16.5 billion barrels (1.6 per cent of world reserves) and 5.590 billion cubic metres of gas (3.9 per cent of world reserves).³⁶

Tracing a brief history of the relations between Baku and Tehran, in August 1992 the Azerbaijani foreign minister visited Iran. This was the first high-level visit since the rise to power of the Azerbaijani Popular Front in March. On that occasion the authorities of the two countries agreed on cooperation concerning Caspian oil explorations. Later in the same month, President Saparmurad Niyazov visited Tehran and discussed the gas pipeline and further cooperation in the oil sector.³⁷

From the political point of view, however, the Popular Front government led by President Abulfaz Elçibey was more oriented towards Turkey and the West – and also Israel – and gradually developed an anti-Iranian and anti-Russian policy.³⁸ In

July 1993, following Aliyev's accession to the presidency, the Iranian foreign minister, Ali Akbar Velayati, visited Azerbaijan and signed a memorandum on mutual relations. In late October Iran and Azerbaijan agreed to allow their nationals to stay for up to fifteen days in each other's country without a visa.³⁹

The strategic importance of Azerbaijan increased in September 1994, when the authorities in Baku and eight oil companies signed the so-called 'contract of the century'. In November 1994 Iran and Azerbaijan agreed on the National Iranian Oil Company (NIOC) taking a 5 per cent share in the oil consortium formed in September.⁴⁰ However, following Washington's rejection of Iranian participation in the consortium and Aliyev's ready acceptance of the order given by the Clinton administration, Tehran angrily replied by blocking the export of a range of goods and asking Baku to pay for electricity supplies to Nakhichevan.⁴¹

At that stage, the energy resources of the Caspian Sea were believed to be comparable to those of the Emirate of Kuwait or even, according to other analyses, to those of the Persian Gulf. However, the negative results of actual drilling in two Azerbaijani fields that had been expected to contain significant oil deposits dampened the general euphoria. In fact, in 2000, the Kurdashi field explored by the Italian AGIP was found to be almost completely dry.⁴² Other fields explored by AIOC (Azerbaijan International Oil Company) produced oil with a high sulphur content.

Furthermore, oil fields in Azerbaijan are mainly offshore. Since highly sophisticated infrastructures are required, offshore fields are very expensive. Though the cost of a single offshore exploratory well is estimated at 20 million dollars, in Azerbaijan CJPCO had to cope with a cost of 180 million dollars for three unproductive wells. Moreover, since the Caspian is landlocked, there are further costs related to transport. Needless to say, such costs are much higher than in the richer and more competitive Persian Gulf.

THE RIFT BETWEEN IRAN AND AZERBAIJAN IN SUMMER 2001

An Iranian military aircraft had flown over the Azerbaijani research vessels *Geofizik-3* and *Altif Hajiyev* for several hours during the afternoon of 23 July at a location some 150 km south-east of the Azerbaijani capital Baku, and at 20:10 a warship of the Iranian navy approached *Geofizik-3* and demanded that the two vessels leave the area and move some 8 km to the north. Both the captain of *Geofizik-3* and an onboard representative of BP, the operator of the Alov–Araz–Sharg production sharing agreement (PSA), replied that they had documents to prove the legality of the ship's presence. However, the Iranian ship continued to insist on the Azerbaijani ships' withdrawal, going so far as to train its guns on *Geofizik-3*, which subsequently returned to port in Baku.⁴³

In July 2001 relations between Azerbaijan and Iran became increasingly tense. Kamal Kharrazi, the Iranian minister for foreign affairs, postponed his visit to Baku

and informed the Azerbaijani chargé d'affaires in Tehran that he was opposed to plans by Azerbaijan and foreign oil companies to continue operating in the Alov–Araz–Sharg concession area, in waters considered by Iran to be its own. Meanwhile, the press service of his ministry reiterated Iranian claims on parts of the Caspian Sea regarded by Baku as Azerbaijani territory. At the same time, the press service warned western oil companies – and in particular BP – to stay away from the disputed oil fields.⁴⁴

The CIS summit discussed the issue during the summer of 2001. On that occasion, President Heidar Aliyev met his Russian counterpart Vladimir Putin and asked for his support. After the summit, Hassan Rouhani, the Iranian National Security Council secretary, met with Aleksandr Maryasov, the new Russian ambassador to Tehran, and made it clear that Iran was not going to give up its claims. According to Rouhani: 'Any legal status of the Caspian Sea should be unanimously formulated by the five coastal states.' The Russian diplomat replied that Moscow considered the 1921 and 1940 treaties signed by Iran and the Soviet Union to be still valid.⁴⁵

On 23 July, two days after the visit of Hassan Rouhani to Baku and his meeting with the Azerbaijani president Aliyev, Iran ordered the *Geofizik-3* survey ship to leave the zone it was working in, on the grounds that it was inside Iranian waters. The survey ship was carrying out a 10–14 day seabed sounding and environmental study and was collecting water samples.

This was the first time in the recent history of the exploration and development of the Caspian Sea's hydrocarbon resources that an operator had been ordered to withdraw from a disputed area under threat of force.

The operator involved was BP. It had signed a production sharing agreement (PSA) in July 1998 covering the Alov–Araz–Sharg structures in the Azerbaijani sector of the Caspian Sea. Under this contract, BP has a 15 per cent interest in the 1400 sq km offshore tract located some 120 km south-east of Baku, in a zone where the water is 300–800 metres deep. According to the contract signed in London on 21 July 1998, the other operators involved are the Azerbaijani state company Socar (40 per cent), Statoil (15 per cent), ExxonMobil (15 per cent), Turkey's TPAO (10 per cent) and the Alberta Energy Company of Canada (5 per cent).⁴⁶ The agreement calls for up to three exploration wells to be drilled in the concession.

On 6 August the Iranian authorities declared that 'differences over the legal status of the Caspian Sea should be settled in an amicable fashion'. At any rate, 'Iran's use of gunboat diplomacy led BP to put an immediate halt to operations at the Alov–Araz–Sharg structure, known as Alborz in Iran.'⁴⁷

While examining this issue, it is worth noting that Iran is not the only littoral state quarrelling with Azerbaijan. Turkmenistan is also in conflict with Baku over ownership of two oil fields included by Azerbaijan in its oil exploitation programme.⁴⁸ Following the collapse of talks on the disputed Azeri–Chirag area in early May 2001, Turkmenistan temporarily closed its embassy in the Azerbaijani capital.⁴⁹ In order to resolve this dispute, Ashgabad has also threatened to appeal to an international arbitration court.

REACTIONS

BP

In the aftermath of the rift, European oil companies were urged not to stop doing business in the Caspian region despite mounting political tensions. Experts underlined the fact that territorial rights in the Caspian had existed for decades and business had been carried out in the area as usual.⁵⁰

The position of the operator and the consortium is clear: work will resume only if assurances are received regarding the possibility of conducting it in complete safety. Regarding the border dispute, a BP official declared in Baku: 'BP has to abide by the law and can't cope with the Iranian air force. Thus, the question has to be solved by the government of Azerbaijan and the Iranian authorities. BP expects them to sort that out before we start drilling again.'⁵¹

However, BP's position is not so simple. Azerbaijan represents a key country for BP, especially after having sold its interests in the Kashagan field in Kazakhstan,

«ننگ برآون (سفر انگليس در تهران) اعلام كرد: شرکت های انگلیسی بدون اجازه تهران در خزر

وارد عمل نمی شوند.» - جانت بر



Figure 8.1 'What are they doing here?' 'Nothing, they're scuba-diving.'

Nick Brown (British ambassador in Tehran) says British firms will not operate without Tehran's permission.

acquired by the other partners of the joint-venture. The British company is involved in the development of the Alov-Araz-Sharg field, but also in the Azeri-Chirag-Guneshli field, in the Baku-Tbilisi-Ceyhan pipeline and in the Inam structure, for which a licence was granted to Amoco in 1998.

In the next five years, BP is thus planning to invest US\$13 billion in the country. But, at the same time, BP is also interested in Iran. Though reluctant at the beginning due to US sanctions against the Islamic Republic, BP submitted a bid for the development of the three Bangestan oil fields. However, after the July 2001 incident, the Iranian Oil Ministry indicated that 'no contract would be concluded with any companies engaged in exploration activities in zones regarded as Iranian territory.'⁵²

Azerbaijan

The government of Azerbaijan formally protested against the Iranian actions of July 2001. According to a report in Azerbaijan's news agency, Turan, on the evening of 23 July Azerbaijani prime minister Artur Rasizade met the Iranian ambassador Ahmad Gazai and handed him a diplomatic note protesting at Iran's actions. The day after the Iranian ambassador in Baku declared:

Iran had never wished for such a situation to arise. The latest events cannot bring injury to bilateral relations because the interest of both countries is tied. Iran more than once has stated the intolerability of carrying out such work in disputed territory.⁵³

On 7 August the Azerbaijani newspaper *Ekho* reported Hamid Reza Asselfi, head of the press service of the Iranian ministry of foreign affairs, as saying that Iran was ready to defend its sector of the Caspian Sea, and to take measures against any foreign companies that continued activities in the sector claimed by Iran.⁵⁴

The paper *Milletin Sesi* (Voice of the Nation) suggested that tensions in Iranian-Azerbaijan relations could lead to a second Kuwait crisis.⁵⁵

On 25 September the Sarq News Agency reported:

Disagreements over the fact that next year the Araz-Alov-Sarq project will be practically in a state of 'idleness'. The reason is clear: Iran is threatening to use force if work on the contract area is resumed, and the companies are reluctant to get mixed up in politics and are waiting for the countries to solve the issue themselves.⁵⁶

According to *Azer Press*:

Azerbaijan is refraining from further geophysical studies in the South Caspian because of the ambiguity caused by Iran's claims. Azeri specialists say that this situation might have caused the postponement of the three-dimensional speculative seismic study in the block comprising the offshore perspective structures D-8/D-10/D-11.⁵⁷

Turkey

According to *The Turkish Daily News* of 8 August 2001, only Ankara was eager to help Baku in its conflict with Iran. The same newspaper also printed a CNN-Turk interview with Israeli prime minister Ariel Sharon. Answering the question on the possible partnership between Turkey, Israel and Azerbaijan against Iran, Russia and Armenia, Sharon stated that he would raise the issue of cooperation with Baku during his visit to Turkey: 'I will say in Ankara that we are willing to enhance relations with Azerbaijan. But, I repeat, this relationship is not against any third country.'⁵⁸

On 23–25 August Turkey reacted to the Iranian so-called 'gunboat diplomacy' by sending an escort of ten F-16 fighters with General Huseyin Kivrikoglu, the Turkish army Chief of Staff, on his visit to Baku.⁵⁹ Turkish aircraft visiting Azerbaijan have been portrayed alternately as an 'aerobatics group and a squadron of warplanes'. According to one version, the event had been scheduled the previous year in order to mark a military school graduation.⁶⁰ However, the performance came one month after the Iranian threat. On the occasion of the show of solidarity by the so-called 'Turkish stars', thousands of people took to the streets of Baku. However, the show did not last long and the only result was a huge traffic jam, which took hours to sort out.

In the past, Turkish armed forces have *discreetly* trained their Azerbaijani counterparts. Though Turkey helped Azerbaijan on this occasion, according to a diplomatic source Ankara is not universally popular in Baku due to the fact that on more than one occasion, Azerbaijanis have felt exploited by the Turks. On the other side, Turkish authorities believe that their Azeri counterparts are not as grateful as they should be, especially when it comes to signing contracts. Furthermore, the Turkish political arena is fragmented and not all politicians truly understand the long-standing tradition and history of Azerbaijan.⁶¹

At the same time, Turkey is emerging as an interesting market for Azerbaijani energy exports. In 1995 it consumed 7.9 billion cubic metres of gas, and in 2010 it will need 30 billion. The collapse of the Soviet Union created new opportunities for Iran and Turkey in the context of the Caucasus and Central Asia. Though history demonstrates the long-standing Iranian and Turkish interest in these regions, the unexpected collapse of the Soviet Union found Tehran and Ankara ill-prepared for effective diplomatic action in the area.

Local conflicts and instability soon revealed their potential to destabilize the margins of both countries: eastern Turkey has long been characterized by Kurdish unrest, and the issue of the 1915 Armenian genocide is still an open question, as already examined, the northwestern region of Iran is called Azerbaijan and shares with the ex-Soviet republic the same ethnic, linguistic and – at least formally – religious (Shia) characteristics. Tehran, therefore, feels threatened by the remote possibility of unification. At any rate, both Turkey and Iran are trying to influence the region from the political, economic and cultural point of view.⁶²

Russia

Following the July 2001 incident, Moscow called on Iran and Azerbaijan to settle their differences through negotiations in order to 'reduce tensions and find a mutually acceptable and fair solution'.⁶³ It is worth noting that in the Caspian Sea only the Russian navy can represent an obstacle to Iran.

Russia claims the Caucasus as its legitimate sphere of influence. In fact, today no other country exercises as much pressure on Azerbaijan as Russia. An empire does not die easily, especially in such a landlocked area, and relations between Moscow and the ex-Soviet republics 'evoke the image of a shark among sardines'.⁶⁴ Russia has been actively involved in the Nagorno-Karabakh conflict, providing arms to Armenia. Destabilization in Georgia has been facilitated by Moscow through support of separatists in Abkhazia and South Ossetia. However, the limits of such a policy have emerged in Chechnya.

Nonetheless, Azerbaijan needs Russian pipelines in order to export its energy resources. However, since Baku is trying to decrease its dependence on Moscow, new projects have recently been put forward. Furthermore, many of Azerbaijan's problems derive from the corrupt and inefficient administration under the Soviet Union, an embarrassing legacy that is hard to leave behind.

The United States

Needless to say, in the rift between Baku and Tehran, the United States took an open stance for the Azerbaijani cause. Philip Reeker, spokesman for the State Department, said: 'We firmly support Azerbaijan and all other countries which choose negotiation, not confrontation, as a path to those goals.'⁶⁵

A senior US official offered support to Azerbaijan in its dispute with Iran over territorial boundaries in the Caspian Sea. On the occasion of a visit to Baku Elizabeth Jones, an American under-secretary of state, condemned Iran's 'provocative acts'. She declared that, if tensions worsened, 'Washington could provide aid for Azerbaijan to strengthen its border security'.⁶⁶

American academics and military strategists focused on this issue. Among others, Ariel Cohen, research fellow at the Heritage Foundation in Washington, published an article entitled 'Iran's aggressive moves in Caspian Basin challenge international economic and security interests', in which he urged the US to consider stronger actions that would make the search for energy resources safe and secure.⁶⁷

The Iranian press has been monitoring the American reaction. Iranian radio, in the hands of the conservatives, accused the United States of 'meddling in Caspian Sea affairs'.⁶⁸ The conservative *Tehran Times* wrote: 'Regardless of the fact that the Azerbaijan Republic has several times denied any violation of its airspace by the Islamic Republic of Iran, the United States have slammed Iran for the so-called *incursion*'.⁶⁹

After the 11 September attacks and following Washington's decision to send military trainers and advisors to Georgia, and Iran's inclusion in the axis of evil, there were expectations that US forces might also get involved in Azerbaijan. Meanwhile, the American advisor on the Caspian, Stevan Mann, stressed that the United States was not pressing for any particular division of the Caspian, but for any solution that would ease energy exports. According to another statement made by the US ambassador in Baku, Ross Wilson, on 13 March 2002, Russian participation would be welcomed in the development of the Caspian region, including pipelines.⁷⁰

Since this area is landlocked not only is the extraction of oil from the Caspian Sea a problem, but another major issue in the relationship between Tehran and Baku is the passage of pipelines. Iran can in fact offer a way out for Azerbaijani energy resources. However, such a solution would be in open competition with the US backed BTC pipeline project.

As already mentioned, the analysts recognize the fact that the BTC is a difficult project. Nonetheless, the oil companies have to comply with their governments, to the extent that in August 2001, just after the rift opened between Iran and Azerbaijan, Shell and BP sponsored a motorcycle race starting in Baku and, via the Georgian capital Tbilisi, leading to the Turkish port of Ceyhan on the Mediterranean Sea.

CONCLUSIONS

Taking into consideration all these factors, the relationship between Baku and Tehran falls into the category of *oil diplomacy*. As mentioned in the introduction to this chapter, since the mid-1990s this concept has evolved, in the sense that states now have a greater role – vis-à-vis oil companies – than before. This is clearly shown by the BTC project, supported by the United States and Turkey, and in a way imposed on western oil companies, who would prefer the shorter route via Iran. Beyond such new *oil diplomacy* lies the strategic importance of the South Caucasus, which has become more and more evident since the events of September 2001. Last but not least, the BTC 'would allow Israel to draw from Ceyhan (Turkey), the only Middle East government with which Israel has good relations'.⁷¹ However, as a veteran Turkish diplomat stated, 'Baku sees Moscow as Meccah, while Tehran is considered as Medina'.⁷²

NOTES

* I would like to thank the interviewees mentioned in the notes and Pietro Cavanna, deputy chief operating officer at ENI AIGP division, for their valuable comments.

1 For ease, in this chapter the term Azerbaijan will be used to refer to the modern state of the Republic of Azerbaijan and not, as is sometimes the case, to the Iranian provinces of

East and West Azerbaijan (also called 'southern Azerbaijan' by the Azeris from the independent republic). For the historical aspects, see Charles van der Leeuw, *Azerbaijan: A Quest for Identity* (Richmond: Curzon, 2000).

2 Peter Nuliy, 'The black gold rush in Russia', *Fortune* 125(12) (15 June 1992), p. 126.

3 'La confession de Le Floch-Prigent: Entre secrets d'Etat, coups tortus et luttes d'influence, l'histoire d'Elf écrite par son ancien président', *L'Express*, 12/12/1996.

4 Christophe Koessler, 'Le rôle d'Elf-Acquitaine dans la politique néo-coloniale de la France en Afrique', unpublished paper presented at the seminar *L'Europe et le Sud*, Graduate Institute of International Studies, Geneva, March 2001.

5 After a moment's respite, the Bush administration put Iran back amongst rogue states, together with Iraq and North Korea.

6 'BP unveils BTC project structure', in *Middle East Economic Survey*, 44(29) (16 July 2001), A10–A11. Basic engineering cost US\$25 million; the detailed engineering phase, which will include charges for procurement of financing, will cost US\$150 million, land acquisition and construction will total US\$2.7 billion.

7 Sally Buzbee, 'Rumsfeld meets Azerbaijan leader', *AP*, 15/12/2001, 10:01 a.m.

8 Nagorno-Karabakh is a region formally part of Azerbaijan but with an ethnic Armenian majority and currently under Armenian control. Iran fears that this regional conflict might spread into its territory, with evident consequences in terms of refugees.

9 'Azerbaijan in the spotlight', *The Oxford Business Group*, 11 (22/01/2002), <www.oxfordbusinessgroup.com>.

10 Guive Mirfendereski, *A Diplomatic History of the Caspian Sea: Treaties, Diaries, and Other Stories* (New York: Palgrave, 2001), pp. 115 and 142. Relevant to this chapter are also the chapters 'New players, new game, new rules (1991–1997)', 'Diplomacy and betrayal (1997–1999)' and 'Our sea, 2000'.

11 R. Hrair Dekmjejian and Hovann H. Simonian, *Troubled Waters: The Geopolitics of the Caspian Region* (London: I.B. Tauris, 2001), p. 9 (table).

12 'Confab on Caspian Sea winds up in Moscow', *IRNA*, 24/01/2002.

13 Article 122 of the UNCLOS reads: 'Enclosed or semi-enclosed sea means a gulf, basin or sea surrounded by two or more states and connected to another sea or the ocean by a narrow outlet or consisting entirely or primarily of the territorial seas and exclusive economic zones of two or more coastal states.' Articles 123 invites bordering states to cooperate with each other in the exercise of their rights and in the performance of their duties.

14 Sergei Vinogradov and Patricia Wouters, 'The Caspian Sea: current legal problems', *Zeitschrift für Ausländisches Recht und Völkerrecht*, 55(2) (1995), pp. 612–13.

15 Martin Pratt and Clive Schofield, 'International boundaries, resources and environmental security in the Caspian Sea', in Gerald Blake et al. (eds), *International Boundaries and Environmental Security: Frameworks for Regional Cooperation* (London, The Hague and Boston: Kluwer Law International 1997), pp. 86–7.

16 Svante E. Cornell, 'Iran and the Caspian region: the domestic and international context of Iranian policy', *Caspian Brief*, 15 (May 2001), <www.cornellcaspiant.com>, p. 3. 'Estimates close to the Iranian government mention a number of 15 million; nationalist Azerbaijani sources talk of close to 30 million. The real number is likely somewhere between these two.' Edmund Herzig, *Iran and the Former Soviet South* (London: The Royal Institute of International Affairs, 1995), p. 26, quotes 10 to 20 million ethnic Azeris in Iran and states: 'Iranian Azerbaijanis have a distinct and more Iranian sense of

- identity than their northern co-ethnics, and there can be no doubt that seventy years of Soviet rule have left significant differences in outlook and aspiration between them.' David B. Nisaman, *The Soviet Union and Iranian Azerbaijan: The Use of Nationalism for Political Penetration* (Boulder, Col. and London: Westview Press, 1987), p. 83.
- 18 Touraj Arabaki, *Azerbaijan: Ethnicity and the Struggle for Power in Iran* (London: I.B. Tauris, 2000).
- 19 Herzog, *Iran and the Former Soviet South*, p. 24.
- 20 Jonathan Hemming, *The Implications of the Revival of the Oil Industry in Azerbaijan*, CMESI (Centre for Middle Eastern and Islamic Studies, University of Durham), Occasional Paper n. 58, June 1998, pp. 46 and 48.
- 21 Volker Adam, 'Why do they cry? Criticism of Muharram celebrations in Tzarist and socialist Azerbaijan', in Rainer Brunner and Werner Ende (eds), *The Twelfth Shia in Modern Times: Religious Culture & Political History* (Leiden, Boston and Köln: Brill, 2001), pp. 114–34. On nation-building in Azerbaijan see Suha Bölükbaşı, 'Nation-building in Azerbaijan: the Soviet legacy and the impact of the Karabakh conflict', in Willem van Schendel and Eric J. Zürcher (eds), *Identity Politics in Central Asia and the Muslim World* (London: I.B. Tauris, 2001), pp. 35–63. On identity see Ferreydoun Safizadeh, 'On dilemmas of identity in the post-Soviet republic of Azerbaijan', *Caucasian Regional Studies*, 3(1) (1998), <http://poli.vub.ac.be/publi/crs/eng>.
- 22 Herzog, *Iran and the Former Soviet South*, p. 25.
- 23 Liz Fuller, 'Azerbaijan moves to impose tighter control over religious organizations', *RFE/RL Caucasus Report*, 16 August 2001.
- 24 Alexsei V. Malasjenko (eds), *Islam e politica nello spazio post-sovietico* (Turin: Fondazione Giovanni Agnelli, 2000), pp. 151–71.
- 25 Tair Faradov, 'Religiosity in post-Soviet Azerbaijan: a sociological survey', *ISIM Newsletter*, 8 (2001), p. 28. The author also examines the dynamics of the changing attitudes of the population towards religion.
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- 28 *Ibid.*, p. 208.
- 29 *Ibid.*, p. 181.
- 30 Elkhan Nuriev, 'Geopolitical breakthrough and emerging challenges: the case of the South Caucasus', *Perceptions*, 6(2) (June–August 2001), pp. 138–57.
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- 32 Cornell, 'Iran and the Caspian region', p. 4.
- 33 *Ibid.*, pp. 9–10.
- 34 François Thual, *Géopolitique du Chiisme* (Paris: Arléa, 1995), p. 60.
- 35 L. Chegrouche, *Gaz d'aujourd'hui*, p. 1 (January 2001).
- 36 Estimates by Wood Mackenzie, Edinburgh, quoted in Dekmejian and Simonian, *Troubled Waters*, p. 32; Chegrouche, *Gaz d'aujourd'hui*.
- 37 Herzog, *Iran and the Former Soviet South*, p. 22.
- 38 Cornell, 'Iran and the Caspian region', pp. 4–5.

- 39 Herzog, *Iran and the Former Soviet South*, p. 23.
- 40 *Ibid.*, p. 24.
- 41 *Ibid.*, p. 28.
- 42 'Dry wells in Azerbaijan', *Middle East Economic Survey*, 44(30) (23 July 2001), A4.
- 43 'Iran halts Azerbaijan/BP exploration in disputed Caspian area', *Middle East Economic Survey*, 44(31) (30 July 2001), A14–A16, quoting the Azeri news agency Tusan.
- 44 Mirza Xazar, 'Iranian–Azerbaijani tensions persist', *Turkistan Newsletter*, 5(113) (14 August 2001), p. 7.
- 45 *Ibid.*, p. 7.
- 46 'BP caught between a rock in Iran and a hard place in Azerbaijan', *Arab Oil & Gas*, 16 August 2001, pp. 5–6.
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- 63 'BP caught between a rock in Iran and a hard place in Azerbaijan'.
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Chapter 9

Is OSCE's Economic and Environmental Dimension Relevant in Central Asia?

Gael Raballand

This brief chapter dealing with the economic and environmental fields in Central Asia and the Caucasus is presented in the light of recent personal experience in that region. As the first economic and environmental officer in Kyrgyzstan in 1999 and in Baku in 2000 the task was sometimes difficult. Attempted explanations to a European aid agency of what the OSCE was doing for the economy and the environment merely provoked the response that the OSCE was not required in Kyrgyzstan unless it could help finance large-scale projects.

Generally, OSCE activities in this dimension are ignored and frequently criticized. Nevertheless, after OSCE experience in this region, progress still seems possible. Moreover, among the myriad international organizations financing large-scale programmes and operating in the region, several have only reinforced the indebtedness of those countries or have been overcome by corruption scandals. As a former IMF resident representative in Kyrgyzstan, Isqbal Zaidé, said, the easiest task for a European aid agency representative is to regularly grant government-guaranteed loans in order to justify his or her personal work.

Although it seems paradoxical, the OSCE can benefit from its inability to finance large-scale projects in Central Asia and the Caucasus, providing that it continues to express its specificity. In an economically unstable region like Central Asia the OSCE has an unequivocal role to play. But, in order to fully realize how profitable OSCE involvement in this dimension could be, it is necessary to dissipate those mutual misunderstandings that have arisen between the Vienna-based organization and the Central Asian host countries.

THE ECONOMIC/ENVIRONMENTAL DIMENSION IN CENTRAL ASIA: A CONTINUING STORY OF MUTUAL MISUNDERSTANDINGS

The year 1999 marked the completion of OSCE deployment in Central Asia when OSCE centres were opened in Almaty (Kazakhstan), Ashgabat (Turkmenistan) and Bishkek (Kyrgyzstan).¹ Central Asian countries have striven to host OSCE offices.