

The Division of Caspian Energy in Tehran

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Global Research, October 14, 2007

[United Press International \(UPI\)](#) 11 October
2007

Region: [Middle East & North Africa, Russia
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The eyes of Western energy companies will be focused next week on Tehran, where the second Caspian Sea Littoral States Summit will convene on Oct. 16.

The reason? Atop the meeting's agenda is a discussion of the final status of the division of Caspian waters among the five littoral states of Azerbaijan, Russia, Iran, Kazakhstan and Turkmenistan, an issue that has bedeviled their relations since the 1991 collapse of the Soviet Union. While Azerbaijan, Iran and Kazakhstan have all tentatively begun to exploit energy reserves in their coastal sectors, an agreement could clear the way for massive new developments, particularly seabed oil and natural gas pipelines that could dramatically change the region's economic landscape.

The issue has long divided the five nations, and the first Caspian summit was held in April 2002 in Ashgabat, Turkmenistan. Simply put, the issue is between what determines the states' share of the waters — either coastline or an equitable 20 percent division among them. Iran, whose coastline is 13 percent of the Caspian shore, has persistently advocated a 20 percent division, while Russia, backed by Azerbaijan and Kazakhstan, has held out for a division based on coastal sovereignty.

For 15 years Turkmenistan proved the inscrutable element, sometimes siding with Moscow, other times leaning toward Teheran. The death last December of Turkmen President Saparmurat Niyazov and the accession of Gurbanguly Berdimuhammedov to the presidency has apparently removed the final political obstacle to a serious discussion of the issue. A measure of the importance the Kremlin attaches to the meeting is that Russian President Vladimir Putin is scheduled to visit Tehran next Monday to attend the summit.

Addressing journalists in Moscow, Russian Foreign Minister Sergei Lavrov sounded an upbeat tone about the meeting.

"The Caspian summit, which will take place in Tehran next week, should address a draft declaration of the Caspian states," he said. "The draft was agreed upon at a meeting of the foreign ministers several months ago.

"It records consent on many — I would even say on most — issues that concern the future convention on the Caspian Sea's legal status, and the signing of the declaration by the presidents of the five counties will become a very important step on the way toward the final settlement of all issues of this status."

In Teheran, Foreign Ministry spokesman Seyed Mohammad Ali Hosseini was similarly optimistic.

“A discussion of the legal regime of the Caspian Sea and multilateral cooperation among the littoral states as well as a review of the regional and international issues are among the main agenda of the meeting,” he said. “Participant heads of states are expected to give out a final statement at the end of the summit.”

The summit, however, will not be immune from the political winds buffeting Iran. During an interview with Itar-Tass, Iranian President Mahmoud Ahmadinejad said, “We should not permit the Caspian question to turn into a challenge and a reason for anxiety of the Caspian states.

“Turning the Caspian Sea into a zone of friendship and peace is more important than delimitation of its basin. Peoples, living in the Caspian region, have common history, culture and interests. We shall live together in peace and sisterly relations for hundreds of years to come.

“The Caspian Sea belongs to all of us. We should find a just distribution so that our friendly and sisterly relations would consolidate. There are formulas and criteria for delimitation. We believe that using goodwill and interest of the littoral states, we shall reach mutual understanding.”

Goodwill aside, the five nations all still have differing political agendas that may make achieving consensus difficult, if not impossible. Iran has been subjected to U.S. economic isolation since its 1979 Islamic revolution, and Washington would be loath to see any agreement that weakened its sanctions policy. Washington similarly has promoted Caspian export pipeline routes bypassing Russia. Moscow controls Kazakh exports via the Caspian Pipeline Consortium line, which terminates at Russia’s Novorossiysk port on the Sea of Azov, giving both Moscow and Teheran a common interest in thwarting proposed undersea Caspian pipelines that would bypass both nations.

Only Azerbaijan has escaped Moscow’s pipeline monopoly, sending its energy exports via the Baku-Supsa and Baku-Tbilisi-Ceyhan pipelines to Western markets.

The immediate prize is Turkmenistan’s vast natural gas reserves, estimated to be the world’s fifth largest. Washington has been eagerly promoting a Caspian seabed pipeline that would terminate in Baku, again allowing Turkmen gas exports to bypass both Russia and Iran. But a final resolution of the Caspian’s waters would prove a powerful magnet for Western investment, as current Caspian offshore development is limited to Azerbaijan, Kazakhstan and more modest efforts by Iran. Given that offshore drilling is largely a Western specialty, it stands to reason the Caspian nations would avidly court Western companies able to help them exploit their newly defined aquatic resources. It will be interesting indeed to see next week if greed trumps ideology, allowing the exploitation of the Caspian’s final frontier, which holds according to some estimates up to 200 billion barrels of recoverable oil. With oil trading at more than \$80 a barrel, it seems more than likely the Caspian littoral states will attempt to strike a reasonable compromise.

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