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**INSTABILITY IN CAUCASUS AND CENTRAL ASIA AND CASPIAN
BASIN ENERGY RESOURCES MANAGEMENT**

BY

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USAWC STRATEGY RESEARCH PROJECT

**INSTABILITY IN CAUCASUS AND CENTRAL ASIA AND CASPIAN BASIN ENERGY
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by

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ABSTRACT

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The purpose of this paper, is to identify the sources of unrest and possible threats to the future stability of Central Asia and the Caucasus region, the definition of the Caspian Sea's status, the inspection of the Caspian basin energy resources, and the inspection of alternative pipeline routes from Caspian Basin.

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INSTABILITY IN CAUCASUS AND CENTRAL ASIA AND CASPIAN BASIN ENERGY RESOURCES MANAGEMENT

CENTRAL ASIA AND THE CAUCASUS

Central Asia and The Caucasus have a long history of numerous geopolitical struggles from the conquest of Alexander the Great, Genghis Khan, and Tamerlane(Timur) to the 19 century expansionist drive of Russian Empire.⁽¹⁾ For centuries, the mountainous Caucasus region has also been a battleground for competing empires Greek and Persian, Roman and Parthian, Byzantine and Sassanid. Although the peoples of The Caucasus have historically been subservient to greater empires, to stronger national identities and to histories that can be traced back for centuries.

Central Asia is bordered by the Caspian Sea, Siberia, Mongolia, Tibet, and the Hindk Kush. In modern parlance, Central Asia refers primarily to five former states; Kazakhstan, Kyrgystan, Tajikistan, Turkmenistan, and Uzbekistan. Together these territories, they cover a vast territory of steppes, deserts, and mountains that is larger than Western Europe and about half size of the United States. It comprises Georgia, Armenia, and Azerbaidzhan and is a zone of centuries-old international rivalry between Turkey and its supporters and Russia and its friends.⁽²⁾ Refer to figure-1, Caspian Sea Region.

The Caspian Sea is a land locked body of water bordered by five countries, Russia, Iran, Kazakhstan, Turkmenistan, and Azerbaijan, all but one of which(Iran) constituted part of the former Soviet Union. Though they differ markedly in size, population, ethnic composition, and political ideology, they share the common interest of maximizing the substantial energy wealth of the Caspian Basin, and dealing successfully with the environmental issues that effect the explorations for, production, refining, and transport of energy resources.⁽³⁾

Russian penetration into the region began in the mid-16th century, when the region was divided between The Ottoman and Persian Empires, but it was almost three hundred years before Russian finally held control over the region. When Perestroika was introduced in 1986, it was seen as an opportunity for greater autonomy. Georgia quickly affirmed its right to sovereignty and Armenia called for union with the Karabakh enclave in Azerbaijan. These open political demands culminated in an explosion of violence and unrest.

The convergence of several key geopolitical interests such as access to oil, to transportation routes, to spread of Islam, and to Russia's post-Cold War foreign policy ensures that the unfolding events will have repercussions felt far beyond the regions themselves

THE CAUSES OF INSTABILITY

ETHNIC DIVERSITY OF INSTABILITY

Although Central Asia in general and the Caucasus in particular have a long and rich history, and various levels of identification are discernable among the people, the individual states as they arose from communist domination, especially in Central Asia, had no sense of their separate identities in the modern sense. Before the Russian conquest, people mainly identified themselves with their family, clan, tribe, locality and sometimes religion. The creation of five union republics in Central Asia and three in the Caucasus by the Soviet rule, further complicated the issue of national identities. The borders of the union republics, especially in Central Asia, did not seek to create homogeneous republics or confirm with historic quasi-identities. Rather, they divided people and shattered whatever identity and "sense of belonging" existed hitherto, and attempted to replace them with identities flowing from officially recognized republic borders.

The product of this "nationality engineering" was a poisonous mixture of various local, tribal and ethnic groups. Even a casual look today at "the ethnic overlap from one state to another as well as artificial nature of the boundaries between them" clearly indicates to potential crises based on nationality questions for nearly all the Central Asian and Caucasian states, which could easily "destroy whatever political equilibrium exists both within and between them." During the Soviet era, strict totalitarian rule and suppression kept the destabilizing character of ethnic and religious diversity under control. However, the root causes of instability were never dealt with, which eventually contributed to the region's turmoil as the forces of destruction were unleashed following the collapse of the Soviet Union without providing adequate mechanisms to cope with them.

Today, because of Soviet policies, each of the Central Asian states has significant minority populations. Ethnic Russians make up approximately 35 per cent of Kazakhstan's population, and 20 per cent of Kyrgyzstan's. There are over 500,000 Uzbeks living in Kyrgyzstan and over one million in Tajikistan. In return, approximately one million Tajiks and just under a million Kazakhs live in Uzbekistan. Although all the post-Soviet states have agreed to honor the existing borders, with such overlapping populations, there is a considerable potential for future claims and for the spread of conflicts from one country to another. Though cross-border ethnic issues have been avoided thus far, it is still a concern for the future. The Uzbek populations in Tajikistan and Kyrgyzstan, for example, have already started to call for union with Uzbekistan, motivated not only "by ethnic ties, but also by Uzbekistan's growing

economic and strategic importance".⁽⁴⁾ Coupled with Uzbekistan's self-image as the center of "Greater Turkestan", these calls have already caused considerable unease among neighboring countries. In a similar fashion, extreme Russian nationalists in Kazakhstan argue that northern territories should be simply ceded to Russia. Although, most of the Russians in Kazakhstan seem to favor preservation of the status quo, this could change in the longer term if it becomes economically more convenient to join Russia or ethnic Kazakh nationalism becomes a burden to them.

Outside the borders of the Commonwealth of Independent States, there are over one million Uzbeks in Afghanistan, some 500,000 Turkmen in each of Afghanistan, Iran, Iraq and Turkey, and about two million Tajiks in Afghanistan. Obviously, the situation creates a number of possibilities for the involvement of neighboring countries in the Afghan civil war. Moreover, there are about two million Kazakhs living in the Xinjiang region of China, which is populated overwhelmingly by approximately eight million Uighurs, whose 250,000 kin are divided between Kazakhstan, Kyrgyzstan and Uzbekistan. Uighurs are known for their long-standing call for independence from China and the creation of "Eastern Turkestan", the west of which falls within the territories of contemporary Uzbekistan and Kyrgyzstan. There has been periodic ethnic unrest in Xinjiang, which the Chinese used force to deal with. The Chinese are extremely agitated about the prospects of further instability spreading from, or being supported by, the newly independent states of Central Asia.

The core issue is the ethnic composition of each state. Since no nation-states existed in the centuries before Russian conquest, substantial transmigration of ethnics groups characterized the region. As a result, major concentrations of ethnics minorities reside within countries other than their titular nation⁽⁵⁾, to include: one million Uzbeks in the Khojent province of Tajikistan, half a million in the Osh area of the Fergana valley in Kyrgyzstan, and 280,000 in the Chimkent region of Kazakhstan; one to two million Tajiks in Samarkand and Buhara, Uzbekistan; nearly a million Kazakhs in Uzbekistan; and roughly eight million Russians, Ukrainians, and Germans in the northern part of Kazakhstan.⁽⁶⁾ The percentage of titular nationality in each republic may be less than half.⁽⁷⁾ Ethnic populations are also split by international boundaries; for example, there are more ethnic Tajiks in Afghanistan than in Tajikistan itself.⁽⁸⁾

These titular nationalities are caught outside their home republic because artificial boundaries, established during the Stalinist era, purposefully cut across nationalities, to "divide and conquer".⁽⁹⁾ Central authorities meant these boundaries as internal administrative lines of demarcation- no one dreamed the Soviet Socialist Republics would ever become actual states. This ethnic mix was further complicated when the area became a wartime dumping ground for

exiled nationalities, such as Volga Germans, as well as the relocation of war industries during the early 1940s, the Virgin Land program of the 1950s, and Moscow's systematic immigration of ethnic Slavs after Stalin's death.⁽¹⁰⁾

More complicated than this is the existing situation in the North Caucasus, astride the southern boundary of the Russian Federation and the Transcaucasus. With its nineteen native national groups (as the last Soviet census recognized in 1989) and a significant ethnic Russian Diaspora as well as non-titular populations of Cossacks, Nogai and a number of others, the North Caucasus is one of the most ethnically and linguistically diverse regions of the world. Embracing as it does three main linguistic groups and almost all religious nuances, the North Caucasus presents a complicated situation where a number of minorities and more than one titular nationality share the same territory. This already intricate condition is further aggravated by the fact that most of the minorities and the titular nationalities are demanding separation from the states, autonomous republics or the regions they are administratively attached.

RELIGIOUS DIFFERENCES

It is obvious today that the long periods of Russian imperial rule and atheistic Soviet-era indoctrination failed to eliminate the influence of Islam from the Muslim-populated lands of the former Soviet Union. Islam's position as an important element of individual and collective self-identity in the region guaranteed its survival and present strength, which has become, since the late 1980s, an increasingly politicized vehicle.

Because of this Islamic heritage perseverance, many outside experts observed during the first year of independence that Islam would be one of, if not the main defining characteristics of Central Asia and possibly of the North Caucasian Moslems in forthcoming years. Early reports from the region lent credence to this observation: the Islamic-dominated opposition took the upper hand briefly in the Fergana Valley in Central Asia and the Chechen struggle in the Northern Caucasus has increasingly shown signs of an Islamic flavor. However, the strategy of simultaneous repression and co-habitation by no means insulates the existing regimes from the challenges of Islam, especially if secular political institutions are also not allowed to develop. As we have seen, in Turkey and various Arab countries during the 1980s, the policy of co-habitation, by heightening the people's Islamic consciousness and leading to cultural Islamisation, provides a favorable ground for Islam to emerge as a political force should economic, political and social conditions within the country take a downturn.

The use of religious labels regarding the various sides to the hostilities in the Caucasus contributes little to understanding the roots of these conflicts and subsequently finding

appropriate solutions. Islam is not the primary collective identity of most of the Muslims of the Caucasus, and plays only a minor role in the conflicts afflicting the region. Not all violence perpetrated by Muslims is Islamic terror, and not all political movements involving Muslims are Islamic movements. Most of the observant Muslims in the region are not connected to Wahabbism and label is often inappropriate. The major coalitions of states involved in the conflicts are not based on religious affinity. In terms of external actors involved in Islamic radicalism in the region, most of them originate from countries which are considered pro-Western: Saudi Arabia, Pakistan and Turkey (primarily non-official groups). The activity of "Afghani Arabs" in the region is a source of instability and concern. Iran's policy in the region is based primarily on geopolitical concerns, and the propagation of Islamic fundamentalism is only a minor facet of their activity in the region.⁽¹¹⁾

Western relative lack of a business-like approach to the grievances of the Muslim peoples of the Caucasus and their assumptions concerning their motivations in the struggles can act like a self-fulfilling prophecy and push many of the Muslims peoples of the Caucasus into radical Muslim arms.⁽¹²⁾

ECONOMIC INEQUALITY, POVERTY AND CORRUPTION

For more than 2,000 years, Central Asia has been a meeting ground between Europe and Asia, the side of ancient east-west trade routes collectively called the Silk Road and, at various points in his history, a cradle of scholarship, culture and power. It is also a region of truly enormous natural resources, which are revitalizing cross-border trade, creating positive political interaction and stimulating regional cooperation. These resources have the potential to recharge the economies of neighboring countries and put entire regions on the road to prosperity.⁽¹³⁾

Differences in the natural resource bases, combined with widespread unemployment creates potential for conflict, could provoke economically driven migration, polarize ethnic groups, and cause increased tensions. It is also worth considering what affect the anticipated wealth resulting from these natural resources will have on regional problems and the potential for confrontation. There are concerns, for example, that countries gaining most from the exploitation of natural resources might use their newly gained wealth to increase their military spending, thus creating a destabilizing change in the regional balance of power.

The redistribution of wealth within societies is another potential source of conflict. There is no doubt that wealth from natural resources can offer a means for future regional development. If mismanaged, however, it could be tremendously destabilizing. On the other hand, the extreme poverty found in parts of Central Asia has been and will continue to be a destabilizing factor in

the region. The rapid economic and social changes since the collapse of the Soviet Union have left many people with a much lower standard of living than they previously had and without the social safety net the Soviet regime provided.

These rapid changes and economic pressures have already led to a marked increase in personal corruption and, consequently, a negative impact on regional stability. Obviously, corruption is one of the biggest obstacles to reform and long-term stability and a major factor in distorting a fair and equitable distribution of wealth. Although corruption has been deeply embedded in these societies since the beginning of the Soviet era, after independence, bribery and other corrupt practices offered a way for people to supplement their incomes in these unstable economic environments. Of further concern in this context is the tendency of money from the political and criminal worlds to intermingle more and more in ways that could fuel conflict over access to economic resources.

Another problem connected with the regional economic downturn is drug trafficking and related criminal activities. Although it has not yet played a very substantial role in regional politics, the rate at which drug trafficking is spreading, especially in Central Asia, is staggering and it brings with it corruption, arms dealing, other criminal activities, and possibilities of conflict.

INTERNATIONAL DIMENSIONS OF INSTABILITY

RUSSIAN INFLUENCE ON THE REGION

Aside from geo-strategic considerations, Russia has two primary reasons for being involved in Central Asia and the Caucasus. One is to protect ethnic Russians in the region and the other is to maintain access to important resources. However, while Russia has clear political and economic concerns, it has had problems consistently implementing policies that specifically address those concerns. This has undermined Moscow's effectiveness in securing its interests in Central Asia and the Caucasus. At the same time, extensive political, historical and economic ties forged over the years between Russia and the former Soviet republics in Central Asia and the Caucasus should not be taken lightly either. The maintenance of these ties and the nurturing of the relationship between Russia and the newly independent states of Central Asia and the Caucasus will be important in contributing to the stability of the region, while severing that tie in the short-term might be fatal for regional peace and stability.

Russian elites generally pose these threats as objective factors along with certain geopolitical imperatives pertaining to the entire southern CIS periphery. They assert that these countries cannot create stable policies and/or economies without Russia. Objectively, they need Russia more than Russia needs them. Russia has vital interests and a sphere of vital influence

(there is no reticence about using this term) here and will do what it deems necessary regardless of outside criticism.⁽¹⁵⁾

Three new features in Russia's policies towards the Caucasus and Central Asia appeared by end of the third year of the post-Soviet period. First, the economic interest, which had been quite poorly pronounced in 1992 and 1993 and became a major factor in policy-making. Various lobbies and interest groups, first of all linked with the oil and gas business, acquired a higher profile in the Kremlin corridors - and the issue of Caspian Sea oil gradually emerged as one of the top priorities in Russia's foreign policy (Fortsythe, 1996; Razuev, 1996). Second, the High Command of the Russian Army became increasingly aware of the limits of the available military capabilities. Faced with a peacekeeping overstretch, the Defense Ministry and the General Staff turned more cautious and even reluctant to get involved in any new open-ended peace operations. Third, the self-assertive political rhetoric in Moscow had itself become a driving force. The pressure to deliver something on numerous ambitious statements was mounting and overwhelming the economic pragmatism and the military prudence. The leaders sought for a small and successful war - and arrived at Chechnya.⁽¹⁴⁾

The erosion of Moscow's influence in the post-Soviet space has been most dramatic in the Caucasus and Caspian region.⁽¹⁶⁾ Georgia and Azerbaijan have increasingly pursued pro-Western policies in recent years and have intensified their ties to NATO. Georgian President Eduard Shevardnadze has predicted that Georgia will be "knocking on NATO's door" within 5 years,⁽¹⁷⁾ while in December 1999 Azerbaijan's Foreign Minister Vilayet Guliev said that Azerbaijan intended to apply for "aspirant status in NATO." Units from Georgia and Azerbaijan are also participating in the Kosovo Force as part of a Turkish battalion.

It may easily be assumed that if and when the decision on expansion takes effect, all CIS states will have to align themselves with differing positions. If no special remedial measures are taken to moderate the Russian reaction, Moscow may be expected to apply additional heavy pressure on all former Soviet republics: (1) to prevent them from the temptation to follow in the path of Eastern European "renegades," (2) to create a "rejection front," or (3) to create a military-political "counter balance" to this expanded and allegedly hostile alliance.

TURKISH INFLUENCE ON THE REGION

Immediately after the collapse of the USSR, while the identity question was discussed earnestly among the locals and by outsiders interested in the outcome, Turkey was cited as an important actor because of its strong historical, cultural, ethnic and linguistic bonds with the newly independent states of Central Asia. Thus the positive role Turkey might play in this region

was extensively discussed not only within Turkey but also in the West, whose fear that radical Islam might fill the power vacuum that emerged in the region led to strong encouragement to these states to adopt a "Turkish model" of secular democracy combined with a liberal economy.

Seeing itself as a potential "big brother" to the Turkic states of Central Asia and the Caucasus (Azerbaijan, Kazakhstan, Kyrgyzstan, Turkmenistan and Uzbekistan) Turkey, too, wanted to act as a window or link to the international community. Moreover, their emergence as independent states at a time when Turkey was experiencing the negative effects of the end of the Cold War on its security and foreign policies was looked upon as a welcome break and an unprecedented historical opportunity to be utilized for political, economic and psychological gains. Therefore, to expand its political, economic and cultural ties with the newly independent states, Turkey, immediately following their independence, launched a number of policy initiatives and many Turkish politicians, academics and businessmen traveled to Central Asia. However, blown-up expectations and euphoric pronouncements were soon modified by reality and Turkey has had to backtrack on some of its earlier pledges regarding extensive economic aid. Then, disappointment followed on both sides. In particular, the Central Asian states doubted Turkey's ability to provide models for education and economic development, while the Turks have become irritated by the half-hearted responses they received from Central Asians to Turkish overtures.

Although Turkish leaders have repeatedly articulated that the fear of a revival of pan-Turkism as an extension of Turkey's efforts in Central Asia and the Caucasus is unfounded, its neighbors' suspicions continued to hound Turkey. Russia, for example, openly accused Turkey of applying "racial criteria" in its increased activities in the region. Turkey's earlier tendency to refer to all Turkic-speakers simply Turks and loose talk about the emergence of a belt of Turkish-speaking communities from the Adriatic to China fuelled this and similar accusations.⁽¹⁸⁾ In addition to geographic proximity, which Turkey can utilize successfully for its benefit, the lures of the Caspian oil potential and the need to transfer it to Western markets provide an added incentive for closer involvement.

Since Russia is still the only great power in the Caucasus theatre, Turkey, understandably, tries to avoid alienating or alarming Moscow, taking care in its rhetoric and activities as the Russians are acutely sensitive to any pan-Turkic, as well as Islamic, trends in the area.

Turkey's interest in the Nagorno-Karabakh issue, because of its support of Azerbaijan, has put it on a collision course with Russia. The dangers of Turkish involvement in the conflict were clearly indicated to Turkey by the then Russian Army Chief of Staff, General

Shaposhnikov, who warned that if Turkey became militarily involved in the conflict, it could escalate into World War III. Despite the massive exaggeration, such a remark reflected Russian concerns about this conflict and the possibility of Turkish involvement.

A particular case in this regard was the both of 1st and 2nd Chechen crisis, which rapidly became a sore point in Turkish-Russian relations as Russia claimed that the Chechens were obtaining assistance and volunteers from Turkey. In return, there were reports that the Russians were extending support to the PKK, a terrorist group operating in Turkey, in response to alleged Turkish involvement in Chechnya.

Turkey and Iran have themselves become rivals in trying to create spheres of influence at the southern portions of the former Soviet Empire. Turkey has been concerned that Iran may attempt to turn Moslem nationalities toward theocracy, while Iran is worried that Turkey's active role in the region is aimed at forging Pan-Turkic hegemony on Iran's northern and western frontiers. Thus, there ensued competition for a while between the two opposing sides for the hearts and the minds of the Turco-Moslem peoples of the region.

Also contributing to the erosion of Russian influence in the Caucasus has been Turkey's active policy in the region. While Turkey's relations with Central Asia have witnessed a slowdown since the mid-1990s, Ankara has strengthened its position in the Caucasus, which has emerged as a region of growing strategic interest and importance for Turkey.⁽¹⁹⁾ Relations with Georgia have intensified, especially in the military field. This military assistance, while limited, is part of a broader effort by Georgia to strengthen its independence and ties to the West, including NATO. Turkey has also strengthened ties to Azerbaijan and strongly backed Baku in its struggle with Armenia over Nagorno-Karabakh. However, Ankara has been careful not to be drawn militarily into the Nagorno-Karabakh conflict.

Turkey and Georgia have launched a joint initiative to create a South Caucasus Stability Pact. The pact, which was proposed during former Turkish President Suleyman Demirel's visit to Tbilisi in January 2000, would include Armenia, Azerbaijan, and Georgia, as well as Turkey, Russia (and possibly Iran), the United States, the European Union (EU), and the Organization for Security and Cooperation in Europe (OSCE). The International Monetary Fund (IMF) and the World Bank would be asked to underwrite reconstruction aid for the region. The initiative, however, would not include Chechnya and the Northern Caucasus. The pact is designed to increase Turkey's profile in the region, as well as to enhance Western involvement. By including not only Western powers, but also Russia, Turkey is, in effect, seeking to legitimize Western involvement in the area and implicitly asking Russia to view the region as an area of international cooperation rather than as its own backyard. The proposal has the support of

Azerbaijan as well as that of key Western governments, including the United States. At the same time, the energy issue has given the Turkish interest in the Caucasus and Caspian region a sharper focus. The Caspian region is a major source of the natural gas and oil that Turkey needs to meet its increasing domestic energy requirements. Ankara is particularly interested in the construction of a pipeline to carry Caspian oil from Baku in Azerbaijan to the port of Ceyhan on Turkey's Mediterranean coast. This would not only help meet Turkey's growing domestic energy needs but also increase its political influence in the region.⁽²⁰⁾

In addition to construction of the Baku-Ceyhan oil pipeline, Ankara is interested in the construction of a gas pipeline between Turkmenistan and Turkey. The line will provide the first viable export route out of Turkmenistan, enhancing its energy independence as well as viability as an independent state. The Turkmenistan-Turkey gas pipeline would parallel the Baku-Ceyhan oil pipeline and could sideline alternative routes such as the Russian Blue Stream project—dubbed Blue Dream by critics—to transport natural gas underneath the Black Sea.

The energy issue has given the historic rivalry between Turkey and Russia a sharper geopolitical—and economic—focus. Increasingly, Russia has come to see Turkey as a major rival for influence in Central Asia and the Caspian region. In some ways, the 19th century Great Game of diplomatic maneuver is being replayed in a new geopolitical context, with energy and pipelines replacing the railroads as the main means of extending political influence.⁽²¹⁾

The importance of planned show of the Turkish Stars over Baku skies was evaluated by a high level Azeri officials as “being an obvious indicator of the strategically cooperation among the two countries”.⁽²²⁾

IRANIAN INFLUENCE ON THE REGION

Iran's religious influence in Central Asia extended only as far as Tajikistan because Islam's attraction has been stronger there than anywhere else in Central Asia, and because of the ethnic, cultural and linguistic closeness of the two states. Iran's other close affiliation has been with Turkmenistan, utilizing their long common border.

From this position, “Iran has subsequently had some success in projecting a more positive image in the region.” Most importantly, Iran's policies in the region have been more moderate than was originally anticipated. It has been quite careful not to give the image of trying to destabilize the region by its revolutionary rhetoric. In this, Iran's close relationship with Russia and understanding regarding preservation of stability on the southern border of the Russian Federation has played an important part. Moreover, Iran's long contiguous border with Central Asia and the Caucasus provided it with an unavoidable geographic advantage over Turkey. In

addition to convenient land access to the outside world bypassing Russia, Iran offers different alternatives for transferring the region's oil and gas resources to world markets. Already, agreements have been signed between Iran and Turkmenistan for the construction of a pipeline for Turkmen natural gas and between Kazakhstan and Iran for an oil swapping arrangement.

Iran's engagement in the Caucasus has been less gratifying, with Armenia the only part of the region where it has had some influence. Although at first it appears anomalous that the Islamic Republic of Iran should make successful inroads in Christian Armenia while its relations with Shi'ite Azerbaijan remains tense at best, economic interests and geopolitical calculations not religion, dominates this complicated triangle.

Consequently Iran alone cannot threaten Russia's regional interests despite mounting Russian hysteria over fundamentalist Islam. That hysteria owes more to atavistic Russian political-cultural traditions and to the need to justify Russia's new nationalism and neo-imperialism at home than it does to reality. Indeed, Iran competes with Pakistan, as with Turkey, for influence over Central Asian energy and economies. The rivalry with Pakistan, like the resulting cooperation with India, is recognized abroad. Iran's foreign relations, therefore, hardly manifest a purely Islamic policy. Like Turkey, Iran will remain a player, but it cannot unilaterally and fundamentally assist Central Asia or meaningfully shake the emerging status quo. If it expands its rapprochement with Ankara, Iran could conceivably block Russian ambitions and be a force upon which Central Asian states might rely. But first both states must radically change their policies, an unlikely prospect.⁽²³⁾

CHINA'S INFLUENCE ON THE REGION

Motivated by its increasing demand for energy, China has already begun to invest heavily in the oil-rich states of Central Asia and the Caucasus, especially in Kazakhstan. Trade between China and the Central Asian states are also flourishing, based on cheap Chinese consumer products and high local demand. Moreover, for the authoritarian Central Asian leaders, China's development strategy, mixing communist ideology with a gradual transition to a market economy in parts of the country, is an attractive model. Further, close relations with China may also help the Central Asians to counter the Russian post-Soviet hegemonic drive in the region. At the same time, conversely, the Central Asian's are attempting to preserve some Russian presence in the region as a strategic protection against possible future Chinese demands and pressures.

For its part, China fears that its Uighur minority, influenced by the liberation of their "Turkic brethren" across the border, might resort to increasingly violent means to achieve independence

themselves and perhaps even organize a rebellion from bases in Central Asia, where many Uighurs live. As long as Xianjiang remains quiescent, China will be accommodating of its Central Asian neighbors through economic and trade links. But any suspicion of external support for the Uighurs would inevitably bring Chinese wrath on the perceived culprits. Thus, realizing this enormous potential for conflict, the Central Asian states have so far carefully avoided any encouragement of Uighur separatists and Chinese alienation. The founding of the Shanghai Cooperation Organization(CSO) indicates that China wants to participate in the new Great Game that is evolving in Central Asia.⁽²⁴⁾

WESTERN INFLUENCE ON THE REGION

There are various opportunities for Western investment and expertise in the region, especially in Azerbaijan, Kazakhstan and Turkmenistan, and hence the possibility of clashes of interest. There is also a real possibility that the resultant economic benefits in time could also alter or even reverse the traditional orientation of the North Caucasian nationalities towards Russia. However, Russia is not likely to welcome Western economic involvement in, assistance to and exploitation of resources in the North Caucasus, any of which may run counter to its perceived interests there. In that case, Russia might move aggressively to prevent any attempt to supplant its primary position in the region.

The Russians are already concerned because they perceive that American influence in the whole of Central Asia and the Caucasus expands proportionally to the reduction of Russian weight and influence. Russia is especially suspicious about the United States position regarding Nagorno-Karabakh, believing that American oil interests are now moving towards consolidating Azerbaijan's position in the region. Even though Russia itself is moving closer to the Azerbaijani view, letting the United States take the limelight and benefit from the existing disagreements in the region is something that Russia would never voluntarily allow. In this context, Turkey's position, too, comes under suspicion as an undeclared agent of the West in the region, aiming to dislodge and displace Russian influence.

On the other side of the coin, the United States has also become more active in Central Asia and the Caucasus in recent years. The openly stated US' interest in the region comprises strengthening regional economic [and political] mechanisms, developing east-west energy and transportation processes, and providing support to conflict resolution efforts. However, there are other geo-strategic and geo-economic priorities for further American involvement, such as containing Iran's influence in the region and promoting American business interests and strategic plans. Moreover, American policymakers are also concerned about the possibility of

proliferation of weapons of mass destruction and Central Asia's growing drug trade. Washington has also played a major behind-the-scenes role in promoting the Baku-Ceyhan pipeline. The United States has also strongly supported the Trans-Caspian pipeline that would transport natural gas from Turkmenistan to Turkey as an alternative to the Russian-sponsored Blue Stream, which would transport natural gas from Russia to Turkey underneath the Black Sea. "Beyond the energy resources of Caspian Basin, the region offers the US a chance to advance its aim to improve relations with the Muslim World and develop more open governments."⁽²⁵⁾

CASPIAN BASIN ENERGY RESOURCE MANAGEMENT

ENERGEY RESOURCES IN THE CASPIAN BASIN

The full development of Caspian Sea reserves is only at its initial stage and the majority of gas and oil reserves in this region have yet to be developed. During the Soviet era, most of the Caspian remained unexplored, primarily because the Soviet Union lacked the adequate technology to develop its offshore oil and gas reserves (most of the oil deposits of Azerbaijan, and between 30 and 40 per cent of those of Kazakhstan and Turkmenistan are offshore) and it also wished to keep them as a "strategic reserve". Nevertheless, major discoveries made in Azerbaijan and Kazakhstan during the Soviet period indicate large reserves of oil, at least for those two countries, the production of which will increase with additional investment, new technology and the development of new export outlets. Total proven oil deposits in the Caspian Basin are between 16 billion and 32 billion barrels, comparable to the deposits in the United States (22 billion barrels) and in the North Sea (17 billion barrels).⁽²⁶⁾ Additionally, with an estimated 236 trillion to 337 trillion cubic feet of proven gas reserves, Kazakhstan, Turkmenistan and Uzbekistan each rank among the world's 20 largest natural gas countries. With these proven and prospective reserves, the area, although not another Middle East as some had hoped, could well be another North Sea.

Among the littoral states of the Caspian Sea, Iran is the least interested in the immediate development of Caspian oil deposits because of its oil reserves elsewhere and its inability to utilize even them to their full potential due to the American embargo. Nevertheless, Iran is extremely interested in the distribution and the transportation of Caspian energy resources. As Iran's oil exports and the income derived from it have declined over the years because of the embargo, it is agitated to see the development of new commercial rivals though it wishes to benefit from the transportation of that oil, both materially and as a way of loosening the US embargo that strangles its economy.

Russia's attitude is similar to Iran in that it does not feel the haste to develop the Caspian Sea's reserves as it already has large proven oil and gas reserves and production capacity in other parts of the country. Turkmenistan, like Russia and Iran, is not concerned for the urgent development of its Caspian oil reserves. Its Caspian coast is the least explored of all and it has large natural gas reserves elsewhere in the country. Therefore, Turkmenistan's short- to mid-term objective is to develop an independent natural gas export infrastructure that does not have to pass through Russian territory. Nevertheless, Turkmenistan, too, is interested in the division and mid- to long-term prospect of Caspian Basin oil and gas. Azerbaijan and Kazakhstan, on the other hand, are more interested than the others are in the immediate development and export of Caspian oil.

Developments in international oil markets may also unfavorably affect the development of Caspian Basin oil and gas projects, especially if world oil prices decrease or world oil supply is boosted by increases in oil extraction in the newly developed fields of China, Indonesia, Vietnam and Saudi Arabia or from the traditional suppliers in Western Siberia, the Persian Gulf North Africa and the Americas. Changes in international politics, such as the lifting of international sanctions against Iraq or a softening of the US position towards Iran, would also have an affect. In any case, apart from the Caspian Sea littorals, a number of countries will have to be included in any project because of either the possible transit of oil through their territory or the need for investment. Among others, Turkey, Georgia and Armenia stand out as most important players as far as the transportation of oil is concerned and, potentially, Iran, Bulgaria, Greece, Afghanistan, Pakistan and China may be involved. The Western European countries and the United States are also to be considered since the necessary funds for the projects would eventually come from them. Therefore, before tapping the full benefits of Caspian oil and gas reserves, various legal, political and strategic issues have to be tackled and solved to the satisfaction of at least the majority of the littoral states, regional countries, western oil companies and their governments.

Golboddin Hekmatyar, former prime minister of the official ousted Afgan government, and leader of Hezb- Eslami Afghanistan that Pakistan set up the Taleban movement to gain control over possible routes for transporting oil from Central Asia oil deposits. The former prime minister said that the USA, which had allegedly encouraged Pakistan to support radical alarmists, had lost control over the situation and this resulted in the military operation in Afghanistan.⁽²⁷⁾

Caspian oil cannot replace the volumes from Saudi Arabia and other Persian Gulf states. However, its contribution to the world oil market can weaken OPEC's price and political manipulation. A dramatic change of regime in Saudi Arabia could bring an interim slowdown in

oil production and delivery, but even radical states of any type like to sell their oil and gas. In the event of a temporary reduction of oil flow, the Caspian contribution could soften the blow to the oil market. Diversification of oil sources and energy forms should remain a constant policy, and quick development Caspian oil contributes to that goal.⁽²⁸⁾ Refer to table-1: Caspian Sea Region oil and gas reserves⁽²⁹⁾, table-2: Caspian Sea Region oil production exports⁽³⁰⁾, table-3: Caspian Sea Region Natural Gas production exports.⁽³¹⁾

North and west of Afghanistan are enormous oil and gas reserves in countries such as Turkmenistan, Kazakhstan, Uzbekistan, and Azerbaijan. The region's available but untapped energy resources are second only to those of the Middle East.⁽³²⁾

LEGAL STATUS OF THE CASPIAN

There exist different interpretations of the status of the Caspian Sea. It is also being intensely argued whether it is covered by the Geneva Convention on the sea-shelf of 1958 and the UN Law of the Sea Convention of 1982; whether Caspian resources belong to appropriate littoral states, or should be equally distributed between all of them. Of considerable importance, in terms of finding answers to all these questions, is the position of the Russian Federation, that still has a quasi superpower status, as far as the region is concerned. It is obvious that the Russian Federation wants a resolution of the legal status of the Caspian Sea that will assure its virtual "veto power" over any on-going projects on developing Caspian resources. The Russian Foreign Ministry keeps asserting that the Caspian Sea should have a unique legal status going beyond any existing international norms and customs, and in particular that all littoral states should come to unanimous decisions on the use of its resources.

Recently the Russian Federation intensified its implementations to bring other Caspian states to its side in resolving legal and practical issues related to Caspian sea-shelf resources. Apparently expanding its influence in the area of energy production transportation and distribution is becoming an important tool in Russia's policies aimed at reestablishing its predominant role in the former Soviet geopolitical space. The zone of the Caspian Sea is becoming a salient illustration of these policies.

Azerbaijan's position is significantly different from that of Russia. Baku is resolutely asserting the right of every littoral state to establish its sovereignty over respective areas of the sea. In Azeri's view, the Caspian Sea falls under the internationally accepted definition of a border lake. Until most recently the Azeri position was being largely shared by Kazakhstan, which regards the Caspian Sea as an inland sea. Kazakhstan was also insisting that every

littoral state should be totally independent in resolving all issues related to the exploration and exploitation of resources in its zone of the sea-shelf.

However, certain subtle changes that may eventually bring Almaty closer to Moscow's position started to appear recently as the process of Russian-Kazakh rapprochement on key political, economic and military issues was gaining ground. Evidently Russia will not spare efforts to build up an alliance with Kazakhstan in shaping the future Caspian regime.

The Iranian approach to defining the legal status of the Caspian Sea is closer to that of the Russian Federation, Tehran supports the Russian thesis on the unique nature of the sea and the inapplicability of customary international norms in its case. Not unlike Russia, Iran demands that all of Caspian problems be resolved exclusively by the littoral states, without any outside interference.⁽³³⁾

Turkmenistan's position on the Sea is similar to those of Kazakhstan and Azerbaijan, although, like Iran, Turkmenistan is in less of a hurry to resolve the legal complications and questions surrounding its Caspian borders. Turkmenistan is clearly much more involved in the natural gas and related infrastructure projects than in large-scale development of oil exploration and extraction on the Caspian shelf, extracting about only five million tons of oil compared with 65 billion cubic meters of natural gas each year from its territory.⁽³⁴⁾

PIPELINE ROUTES

Under the current geopolitical calculations, Russia, as stated earlier, is keenly interested in retaining, or recovering, its political influence in the Caspian Basin. In order to acquire this advantage, Russia has insisted that the northern pipeline from Baku, Azerbaijan, to the Russian Black Sea port of Novorossiysk should be the main transit route for oil from the Caspian. This would ensure Moscow's exclusive and strategic control over the region's resources. However, the existing Russian pipelines system, though currently under-utilized, does not have the capacity to absorb all the oil and gas the Caspian region could produce. The system was designed to link the Soviet Union internally, not to perform as an export outlet. An additional limitation is that the oil has to be transported with tankers from Novorossiysk through the already congested and ecologically sensitive Phosphorus to get to world markets. Added to this is earlier Russian attempts to use its virtual monopoly on export routes to control all regional issues, thus highlighting the fact that "the Moscow-centric pattern of postSoviet infrastructure renders energy-rich states dependent on Russia despite their own reserves, leaving them especially vulnerable to Russian reprisals should their foreign policies stray too far from Russian interests".⁽³⁵⁾ Opposing Russian insistence on the northern route, the United States and Turkey

as well as the Caucasian states of Georgia and Azerbaijan prefer a western route through Georgia to the Turkish Mediterranean port of Ceyhan. Although there have been various projects developed by the energy-rich states of the Caspian Basin and Western oil companies to move Caspian energy resources to world markets, the main competition is between the northern and western routes. Thus, the rivalry between Russia and Turkey over pipeline routes is likely to intensify. What is at stake is not only oil and gas transit revenues that both countries can extract from pipelines passing through their respective territories, but more importantly, the pipeline network is one of the key factors in securing and maintaining influence throughout Central Asia and the Caucasus. Quite clearly, usage of the western route would give Turkey a greater influence than Russia, which would benefit greatly from the northern route. Thus, there is increasing scope for major clashes of interest in the region, and these were particularly intensified by the arrival of other extra-regional players.

Analysis of Russia's role, especially, in Abkhazia, Nagorno-Karabakh and Chechnya, clearly indicates that the Russian policy in this region is motivated by a desire to prevent the penetration of Western influence and it is aimed at the disruption of signed or planned international projects for the development of the Caspian Basin that excluded Russia.

Russia was also concerned about continuing Azeri indecision over membership of the Commonwealth of Independent States. Fearing that Azerbaijan's withdrawal from the Commonwealth could start a chain reaction, Moscow decided to keep Azerbaijan weak and on the defensive, thus discreetly diverted weapons and military expertise to the Armenians through the Russian-dominated forces of the Commonwealth of Independent States, enabling them to score military victories. In this effort, Azerbaijan's poor performance on the front provided Moscow with ample means to exploit local instability for its own geopolitical benefit. However, after Heidar Aliyev took Azerbaijan into the Commonwealth again in 1993, Russia started to exert pressure on Armenia and created an uneasy cease-fire in May 1994, which still holds. Since then, Armenia and Russia have signed a friendship treaty allowing Russian military bases in Armenia and the stationing of Russian forces in Armenia's borders with Turkey and Iran, as well as a deal creating a joint venture with the Russian Gazprom company to supply Armenia with natural gas. On the other hand, the Russian position towards Azerbaijan was also modified following Yevgeny Primakov's appointment as the Minister of Foreign Affairs with the support of "pragmatists" in Russian policymaking and various lobbies and interest groups primarily linked with the oil and gas industry. Because of President Aliyev's award of Caspian oil concessions to Lukoil, oil interests became influential in persuading the Ministry to look for possibilities of a "resolution of the Nagorno-Karabakh conflict on conditions and terms close to those of

Azerbaijan. Consequently, Russia did not object to the Azeri formula for the settlement of the conflict at the 1997 Lisbon meeting of the Minsk Group of the Organization for Security and Co-operation in Europe (OSCE). Moreover, after the Lisbon meeting, the Russian representatives in the negotiation process acted closely with the West and finally agreed on a settlement plan based on the principle of the status quo ante. This clearly indicated Armenia's isolation and the growing influence of the oil and gas lobby in Moscow. However, after Azerbaijan openly indicated its preference for the Baku-Ceyhan route as the Main Export Pipeline, Russia did not hesitate to insist that the Minsk Group should consider a vaguely defined "common state" solution for Nagorno-Karabakh, once again linking the problem with wider Russian interests in the region.

Although the shortest route for a pipeline from Azerbaijan to the Mediterranean is through Armenia and eastern Turkey, the unresolved Nagorno-Karabakh conflict makes this route difficult to realize in the short run. This, coupled with United States' opposition to passing the pipeline through Iran makes the Georgia route the only possible one for the western line.

However, Georgia, too, is struggling with a number of internal conflicts, a situation that obviously is in Russia's interest. For example, pipeline construction from Baku to Supsa in Georgia, intended for the "early oil", was suspended briefly in October 1998 because of fighting between government forces and followers of the Georgian late president Zviad Gamsakhurdia. In addition, the Georgian President, Eduard Shevardnadze, escaped assassination attempts in 1995 and 1998, and survived a short-lived military uprising in October 1998, which were reportedly linked to disputes over construction of oil pipelines through Georgian territory

As rivalry heightened between the northern and the western routes, the leaders of Turkey and Azerbaijan made several announcements that there will be no other options for oil transportation other than through Turkey. On 29 October 1998, the presidents of Turkey, Azerbaijan, Georgia and Kazakhstan strongly confirmed the accomplishment of their determination in realizing the Caspian-Mediterranean (Baku-Tbilisi-Ceyhan) Project as the main export pipeline project. On the other hand, President Niyazov of Turkmenistan, who did not wish to put his signature to Ankara Declaration, signed a similar bilateral document with Turkey, endorsing plans for a pipeline under the Caspian Sea and on to Turkey via Azerbaijan and Georgia. Later on, the presidents of the same five states reaffirmed their commitment to the transportation of Caspian energy resources by the proposed Baku-Ceyhan route by signing the Istanbul Declaration during the OSCE's Istanbul Summit on 19 November 1999, while United States President Clinton added his signature as an observer. This was the first time that the United States had officially endorsed an agreement for pipeline routes.

The discovery of new oil deposits in East Kashagan in Kazakhstan could significantly change the Caspian equation and the struggle for influence there. Early estimates suggest that the East Kashagan reserves may match the total oil reserves in the North Sea. In order to be commercially viable, Baku-Ceyhan needs to pump 1 million barrels of oil a day. At present, Azerbaijan is not able to guarantee this amount. Kazakhstan oil could cover the deficit and ensure that the Baku-Ceyhan pipeline will be commercially viable.⁽³⁶⁾

Kazakhstan is likely to be a critical player in the Caspian equation. So far, it has sought to pursue a balanced policy between Russia and the West. Lately, however, there have been signs of a tilt in Kazakhstan's policy toward Moscow. **If Kazakhstan were to decide to ship the oil from East Kashagan through Russia rather than via the Baku-Ceyhan pipeline, it could significantly undercut the commercial viability of Baku-Ceyhan and reduce the chance that the pipeline will ever be built.**⁽³⁷⁾

Another actor in the region is Ukraine. In an effort to reduce this dependence on Russian energy, Ukraine has expanded its ties to the countries of the Caspian Basin. Ties with Turkey, in particular, have been strengthened. In June 1997, the two countries signed an agreement for the construction of a pipeline between the port of Ceyhan on Turkey's Mediterranean coast and its Black Sea port of Samsun. From there, the oil will be delivered by tanker to the Ukrainian port of Odessa.

Ukraine has also sought to increase economic cooperation with Kazakhstan, another important player in the Caspian energy equation. In September 1999, Ukraine's President Leonid Kuchma and Kazakhstan's President Nursultan Nazarbaev signed a 10-year economic agreement.⁽³⁸⁾ The two sides have also been discussing the possibility of transporting Kazakhstan oil via Ukraine to Europe.

Another pipeline route is from Central Asia to Pakistan. After solving Afghanistan problem, this route will be the most important. At the heart of this regional stand-off is the battle for the vast oil and gas riches of landlocked Central Asia- the last untapped reserves of energy in the world today. Equally important has been the intense competition between the regional states and western oil companies as to who would build the lucrative pipelines which are needed to transport the energy to markets in Europe and Asia. **(Also it could significantly undercut the commercial viability of Baku-Ceyhan and reduce the chance that the pipeline will ever be built)** This rivalry has in effect become a new great Game between Russia and Britain over control and domination in central Asia and Afghanistan. Since late 1995, Washington had strongly backed the US company Unocal to build a gas pipeline from Turkmenistan to Pakistan across Afghanistan. Refer to table-4: Oil Exports Routes in the Caspian Sea Region⁽³⁹⁾, table-5:

Natural Gas Exports Routes in the Caspian Sea Region⁽⁴⁰⁾, table-6: Phosphorus By Pass Oil Export Routes⁽⁴¹⁾, Figure-2: Existing and Potential Oil and Gas Export Routes From The Caspian Basin, Figure-3: Selected Oil Infrastructure in the Caspian Sea Region.

ENVIROMENT AND ECOLOGY

The general ecological situation is already beyond recovery throughout the region. In addition to the rising sea level and the flooding of coastal areas, the problem of the increasing saturation and greasiness of the soil further worsens the conditions. Because of rising pollution, disturbances caused by the hasty exploration of the coastal shelf and the development of offshore oilfields, various forms of aquatic life face the threat of extinction in the Caspian.

This large-scale environmental and ecological damage underlines the need for an international authority to enforce compliance with appropriate environmental norms in the Caspian Basin. However, as the negotiations on legal issues surrounding the Caspian Sea are intermingled with the resolution of environmental concerns, the ongoing dispute over access to resources presents a major obstacle to the effective management of such problems, particularly at the supranational level.

Both Iran and Russia oppose the construction of trans-Caspian pipelines and objected to oil and gas development projects in the Caspian on environmental grounds. Following the agreement to divide the northern Caspian between Kazakhstan and Russia, Russia has called for uniform environmental requirements to be applied in the northern Caspian. However, the suspicion that both Iran and Russia are using environmental issues to block other countries' exploitation of the Caspian complicates matters.

Environmental questions surrounding the Phosphorus in particular and the Black Sea in general have also begun to weigh heavily in the choice of export routes for Caspian oil. The ports of the Black Sea, along with those in the Baltic Sea, were the primary oil export routes for the former Soviet Union, and the Black Sea remains the largest outlet for Russian oil exports. Exports through the Phosphorus have grown since the break-up of the Soviet Union in 1991, and there is increasing concern that projected Caspian Sea export volumes will exceed the ability of the Phosphorus to accommodate the tanker traffic. To resolve the anticipated problems in the Phosphorus, Turkey declared new navigational rules in November 1998 and plans to install a new radar and navigation system to improve safety and operations in the Turkish Straits. However, these precautions would not be sufficient to protect the environment and provide for navigational safety through the Phosphorus in view of the expected increase in tanker traffic. For this reason, the only way to avoid further congestion and environmentally

hazardous accidents in the area would be the development of alternative export routes that bypass the Straits.

At the CISI Istanbul conference in April 1999, Turkish Foreign Minister Ismail CEM said that the straits should not become a supertanker expressway. However whatever the future may hold in store for the Baku-Ceyhan project and Caspian energy resources, it is essential to improve maritime safety in the Turkish Straits⁽⁴²⁾.

CONCLUSIONS AND RECOMMENDATIONS

There are many obstacles to overcome before such an arrangement can be applied to Central Asia and the Caucasus. First, there is the probable Russian resistance to sharing its much-sought role of "peacemaker" for the region. Second, it would be difficult to find regional states that would send and pay the costs of its soldiers in rather far away parts of Central Asia or the Caucasus to make or keep peace in conflicts that pose little immediate danger to their interests. Third, and maybe most importantly, the regional countries, both the older and newer ones, are not known for their co-operative tendencies, and they look at each other today with suspicion about intentions. So, almost none of the pre-conditions for setting up a regional common security organization and conflict prevention mechanism exist within the region. With this background, the outlook is not so bright because of the ethnic diversity, religious differences, economic inequality and authoritarianism, and there are number of flash points that may erupt into an open armed conflict at any given time. Tension will continue to exist along the international borders between the Transcaucasian republics and the Russian Federation.

Conclusions;

1. It looks that in the near future(25-40 years) all countries will still be dependent up on the current source of energy oil and gas, unless there is feasible scientific discovery.
2. Middle Eastern geography(Gulf countries) have become and still the main geography for drilling the oil and meeting the oil demand of the world.
3. But on the other hand, all developed countries are trying to decrease the dependency to the Middle Easter geography.
4. What we know now is Caspian Basin and the Central Asian Countries (Azerbaijan, Kazakhstan, Turkmenistan and Uzbekistan) do have large amount of untapped oil and gas reserves, these reserves are valued between \$2-5 trillion.
5. As we all know, if there is a richness somewhere, it is inevitable there will be some groups, countries, companies who will try to have that richness, so central Asia is such a region.

6. Following the collapse of the Soviet Union, Central Asia and Caspian Region countries got their independence, but they are all in short of money or sources to finance the people and to realize the public investments, on the other hand, all those countries are not familiar with the free market economic rules, and none of them do have a western style democratic political regimes.

7. It will not be surprising to see "hot spots" and to hear "hot news" from that countries, as those news has already started since Sept 11.

In general terms, the campaign that US has started, not only against to terrorism but also against to corrupt political regimes, fight against starvation, unemployment, poverty. Because those countries do not, and can not have the technological, and economic power to get there oil and market it to the world. So, those developed countries and the top leading oil companies will always try to do business with those countries and there will always be some contradicting interests, some times those contradictions will lead to hot clashes, but finally each side(manufacturer and the consumer) will get the advantages of sharing the oil and politically and economically Central Asia and the Caspian Basin will be rival to Gulf Countries and also that competition will lead to great political changes as the collapse of the all totalitarian corrupt regimes within the next 20-30 years.

WORD COUNT: 9467

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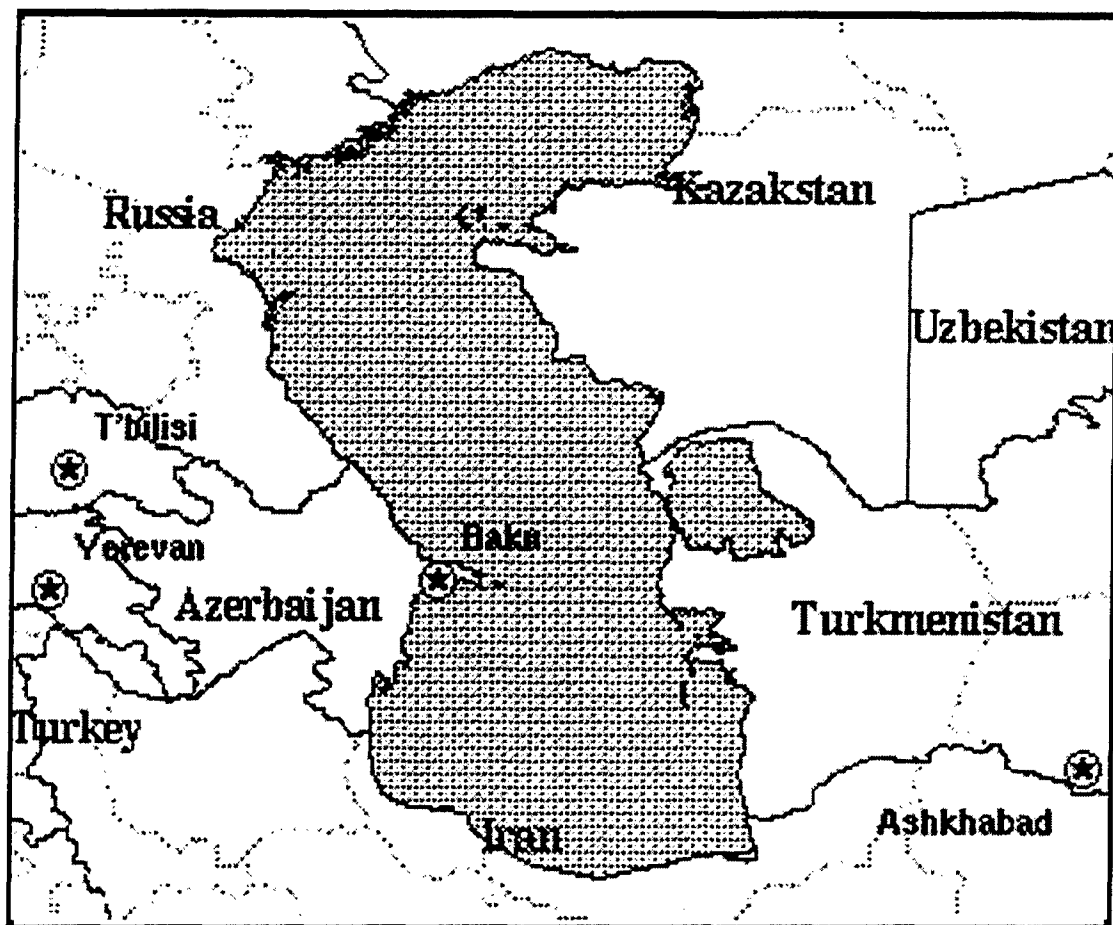


FIGURE 1 CASPIAN SEA REGION



FIGURE 2 EXISTING AND POTENTIAL OIL AND GAS EXPORT ROUTES FROM THE CASPIAN BASIN

Selected Oil Infrastructure in the Caspian Sea Region



FIGURE 3 SELECTED OIL INFRASTRUCTURE IN THE CASPIAN SEA REGION

	Proven oil reserve	Possible oil reserves	Total oil reserves	Proven gas reserve	Possible gas reserves	Total gas reserves
Azerbaijan	3.6-12.5 BBL	32 BBL	36-45 BBL	11 Tcf	35 Tcf	46 Tcf
Iran*	0.1 BBL	15 BBL	15 BBL	0 Tcf	11 Tcf	11 Tcf
Kazakhstan	10.0-17.6 BBL	92 BBL	102-110 BBL	65-70 Tcf	88 Tcf	153-158 Tcf
Russia*	2.7 BBL	14 BBL	17 BBL	N/A	N/A	N/A
Turkmenistan	0.5 BBL	80 BBL	81 BBL	101 Tcf	159 Tcf	260 Tcf
Uzbekistan	0.6 BBL	2 BBL	3 BBL	66 Tcf	35 Tcf	101 Tcf
Total	17.5-34 BBL	235 BBL	253-270 BBL	243-248 Tcf	328 Tcf	571-576 Tcf

TABLE 1 CASPIAN SEA REGION OIL AND NATURAL GAS RESERVES

*only the regions near the Caspian are included

BBL = billion barrels, Tcf = Trillion Cubic Feet

	Production (1990)	Est. Production (2000)	Possible Production (2010)	Net Exports (1990)	Est. Net Exports (2000)	Possible Net Exports (2010)
Azerbaijan	259.3	280	1,200	76.8	155	1,000
Kazakhstan	602.1	693	2,000	109.2	452	1,700
Iran*	0.0	0	0	0.0	0	0
Russia**	144.0	11	300	0.0	7	300
Turkmenistan	124.8	148	200	69.0	83	150
Uzbekistan	86.2	152	200	-168.1	16	50
Total	1,216.4	1,284	3,900	86.9	713	3,200

TABLE 2 CASPIAN SEA REGION OIL PRODUCTION AND EXPORTS

*only the regions near the Caspian are included

** includes Astrakhan, Dagestan, and the North Caucasus region bordering the Caspian Sea (thousand barrels per day)

	Production(1990)	Est. Production(2000)	Possible Production(2010)	Net Exports(1990)	Est. Net Exports(2000)	Possible Net Exports(2010)
Azerbaijan	349.6	212	1,100	-271.9	0	500
Kazakhstan	251.2	170	1,100	-257.0	-220	350
Iran*	0.0	0	0	0.0	0	0
Russia**	219.0	30	N/A	N/A	N/A	N/A
Turkmenistan	3,099.5	1,660	3,900	2,539.0	1,200	3,300
Uzbekistan	1,439.5	1,960	2,400	102.5	500	700
Total	5,358.8	4,032	8,500	2,112.6	1,480	4,850

TABLE 3 CASPIAN SEA REGION NATURAL GAS PRODUCTION AND EXPORTS

*only the regions near the Caspian are included

** includes Astrakhan, Dagestan, and the North Caucasus region bordering the Caspian Sea (billion cubic feet per year)

Name/Location	Route	Crude Capacity	Length	Cost Estimate	Status
Atyrau-Samara	Atyrau (Kazakhstan)-Samara (Russia)	Originally 200,000 bbl/d, increased to 300,000 bbl/d	432 miles	Increase in capacity cost approximately \$37.5 million	Existing pipeline upgraded by adding pumping and heating stations, increasing capacity
Baku-Ceyhan "Main Export Pipeline"	Baku (Azerbaijan)-Tbilisi (Georgia)-Ceyhan (Turkey)	1.0 million bbl/d	approximately 1,038 miles	\$2.8-\$2.9 billion	Basic engineering study completed May 2001; 6-month detailed engineering study began June 2001. Construction scheduled to begin in 2002, with completion targeted for 2004.
Baku-Supsa, AIOC "Early Oil" Western Route	Baku (Azerbaijan)-Supsa (Georgia)	100,000 bbl/d; proposed upgrades to 300,000 bbl/d to 600,000 bbl/d	515 miles	\$600 million before upgrade	Exports began in April 1999; approximately 90,000 bbl/d exported via this route in 2000

		bbl/d			
Baku-Novorossiisk, Northern Route	Baku (Azerbaijan)-Novorossiisk (Russia) via Chechnya	100,000 bbl/d capacity; possible upgrade to 300,000 bbl/d	68 miles; 90 miles are in Chechnya	\$600 million to upgrade to 300,000 bbl/d	Exports began late 1997; exports in 2000 averaged only 10,000 bbl/d
Baku-Novorossiisk, Chechnya bypass with link to Makhachkala	Baku (Azerbaijan) via Dagestan to Tikhoretsk (Russia); connecting to Novorossiisk (Russia)	2000 pipeline capacity: 120,000 bbl/d (rail and pipeline: 160,000 bbl/d) 2005 - 0.36 million bbl/d	204 miles	\$140 million	Completed April 2000. 11-mile spur connects bypass with Russia's Caspian port of Makhachkala.
Caspian Pipeline Consortium (CPC)	Tengiz (Kazakhstan)-Novorossiisk (Russia)	564,000 bbl/d in Phase 1; 1.35-million bbl/d peak	990 miles	\$2.3 billion for Phase 1; \$4.2 billion total when completed	Launched in March 2001. First tanker loading at Novorossiisk set for Aug. 6, 2001; peak 2015
Gardabani-Batumi Pipeline	Gardabani (Azerbaijan)-Batumi (Georgia) oil refinery	N/A	Rebuild of an existing pipeline	N/A	The World Bank and the European Bank for Reconstruction and Development are providing financing
Iran-Azerbaijan	Baku (Azerbaijan)-Tabriz (Iran)	200,000 bbl/d to 400,000 bbl/d	N/A	\$500 million	Proposed by TotalFinaElf
Iran Oil Swap Pipeline	Iranian Caspian port of Neka-Tehran	175,000 bbl/d, rising to 370,000 bbl/d	208 miles	\$400-\$500 million	Under construction
Kazakhstan-China	Aktyubinsk (Kazakhstan)-Xinjiang (China)	400,000 bbl/d to 800,000 bbl/d	1,800 miles	\$3.0-3.5 billion	Agreement 1997; feasibility study halted in September 1999 because Kazakhstan could not commit sufficient oil flows for the next 10 years
Kazakhstan-Turkmenistan	Kazakhstan-Turkmenistan	1.0 million bbl/d	930 miles	\$1.2 billion	Feasibility study by TotalFinaElf;

Turkmenistan-Iran Pipeline	Turkmenistan-Kharg Island on Persian Gulf (Iran)	bbl/d			by TotalFinaElf; proposed completion date 2005
Khashuri-Batumi pipeline	Dubendi (Azerbaijan)-Khashuri-Batumi (Georgia)	Initial 70,000 bbl/d, rising to 140,000 bbl/d-160,000 bbl/d	Rail system from Dubendi to Khashuri, then 105-mile pipeline from Khashuri to Batumi	\$70 million for pipeline renovation	Chevron signed agreement to rebuild and expand the existing Khashuri-Batumi oil pipeline
South Pipeline (Central Asia Oil Pipeline)	Kazakhstan-Turkmenistan-Afghanistan-Gwadar (Pakistan)	1 million bbl/d	1,040 miles	\$2.5 billion	Memorandum of Understanding; stalled due to Afghan fighting
Trans-Caspian (Kazakhstan Twin Pipelines)	Aqtau (western Kazakhstan coast)-Baku (Azerbaijan); could extend to Ceyhan (Turkey)	N/A	370 miles to Baku	\$2-\$4 billion if to Ceyhan	Feasibility study agreement December 1998 Royal Dutch/Shell, Chevron, ExxonMobil, Kazakhstan

TABLE 4 OIL EXPORT ROUTES IN THE CASPIAN SEA REGION

Name/Location	Route	Gas Capacity	Length	Cost Estimate	Status
Baku-Erzurum	Baku-Tbilisi (Georgia)-Erzurum (Turkey)	Planned 254 Bcf capacity.	540 miles (entire route from Baku to Erzurum)	\$1 billion (includes up to \$500 million to construct new Azeri section)	November 2000 inspection of existing Gazi pipeline deemed that extensive repairs were necessary; new pipeline will be necessary
Centgas (Central Asia Gas)	Daulatabad (Turkmenistan)-Herat (Afghanistan)-Multan (Pakistan). May extend to India.	700 bcf/year	870 miles to Multan (additional 400 miles to India)	\$1.9 billion to Pakistan (additional \$0.5 billion to India)	Memorandum of Understanding signed by Turkmenistan, Pakistan, Afghanistan, and

					Uzbekistan. Project stalled with financing difficulties because of Afghan fighting.
Central Asia-Russia-Europe	Turkmenistan-Kazakhstan-Russia	3.5 Tcf	N/A - uses existing routes	Uses Existing route	Operational; uses existing Russian system. Turkmenistan signed an agreement to export 350 Bcf to Russia in 2001, as well as to provide Ukraine with 1.06 Tcf in 2001 and 8.83 Tcf from 2002-2006 via this pipeline.
China Pipeline	Turkmenistan-Xinjiang (China); may extend to Japan	1 Tcf/year	4,1,61 miles; more if to Japan	\$10 billion to China; more if to Japan	Preliminary feasibility study done by Exxon, Mitsubishi, and CNPC
Trans-Caspian (Turkmenistan)	Turkmenbashi (Turkmenistan)-Baku (Azerbaijan)-Tbilisi (Georgia)-Erzerum (Turkey)	565 Bcf in first stage, eventually rising to 1.1 Tcf/year	1,020 miles	\$2.0-\$3.0 billion	Project stalled; Negotiations between Turkmenistan and the international consortium backing the project have stalled over payment and price issues.
Turkmenistan-Iran	Korpezhe (Turkmenistan)-Kurt-Kui (Iran)	283-350 Bcf/year; expansion proposed to 459 Bcf/year by 2005	124 miles	\$190 million; 2005 expansion \$300-\$400 million	Commissioned December 1997

TABLE 5 NATURAL GAS EXPORT ROUTES IN THE CASPIAN SEA REGION

Name/Location	Route	Crude Capacity	Length	Cost Estimate	Status
Albanian-Macedonian-Bulgarian Oil (AMBO) pipeline	Burgas (Bulgaria)-Macedonia-Vlore (Albania)	750,000 bbl/d (could be expanded to 1 million bbl/d)	560 miles	\$850 million-\$1.1 billion	Construction proposed 2001-2002. Completion targeted for 2004-2005.
Burgas-Alexandroupolis Trans-Balkan Oil Pipeline	Burgas (Bulgaria)-Alexandroupolis (Greece)	00,000-800,000 bbl/d	178 miles	\$600 million	Initial agreement signed in 1997 between Bulgaria, Greece, and Russia. Seeking to establish TransBalkan Oil Company to build the pipeline.
Constanta-Trieste Pipeline	Constanta (Romania)-Pancevo (Yugoslavia)-Omisalj (Croatia)-Trieste (Italy). Omisalj has also been proposed as a terminus	660,000 bbl/d	855 miles	\$1.2-\$1.6 billion	Feasibility studies completed; awaiting intergovernmental accord safeguarding the project, as well as financial backing.
Odesa-Brody (Ukraine)	Odesa-Brody; optional spurs to the northern Druzhba line at Plotsk, Poland, or to Slovakia	180,000 bbl/d; ultimate capacity 600,000-800,000 bbl/d	400 miles	\$465 million for pipeline and terminal; \$140 million spent using revenues from the Friendship and Trans Dnieper pipelines	ivdenny (Yuzhnyi) oil terminal near Odesa almost completed; pipeline 85% finished with target completion in 2001

TABLE 6 BOSPORUS BYPASS OIL EXPORT ROUTES

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