



## Convention on Caspian Sea Rekindles Hope for Regional Cooperation

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The 22 year old dispute over Caspian Sea neared to a resolution in August 2018 when leaders of the five Caspian Sea littoral states, President of Azerbaijan Ilham Aliyev, President of Iran Hassan Rouhani, President of Kazakhstan Nursultan Nazarbayev, President of Russia Vladimir Putin and President of Turkmenistan Gurbanguly Berdimuhamedov signed a Convention on the Legal Status of the Sea at Aktau port city in western Kazakhstan. The bone of contention amongst these countries was over the nature of the resource-rich water body straddling the steppes of Central Asia and the Caucasus Mountains. It was the Fifth Summit of the heads of state of the Caspian littoral countries. The earlier summits were held in Ashgabat 2002, Tehran 2007, Baku 2010, and Astrakhan 2014.<sup>1</sup> Other related documents, including cooperation against organised crimes, agreements on trade and economy, transport, prevention of incidents in the Caspian Sea and the protocol on cooperation and interaction of border agencies, were also signed at Aktau.<sup>2</sup> Previously, only two countries Iran and Soviet Union shared the Caspian Sea according to the Soviet-Persia/Iran agreements of 1921 and 1940. Emergence of three new littoral states (Azerbaijan, Kazakhstan and Turkmenistan) following the breakup of the Soviet Union necessitated a new arrangement among the five countries.

The littoral states differed over defining the nature of this water body, which is rich in natural resources and marine wealth. They were neither ready to consider it as a 'sea' nor accept it as an international 'lake'. Accepting it as a sea would have entailed application of prevalent international sea laws such as the United Nations Convention on the Law of the Sea (UNCLOS). Considering it as a lake and each getting 20 per cent share would have been disadvantageous to some states because of dissimilar distribution of its coastlines. Exploitation of natural resources and development of marine industries were hampered due to un-demarcated territorial waters. Consequently, the energy producing countries have not been able to export their resources by laying international pipelines crossing the Sea. In the past, Azerbaijan and Iranian navies have

rubbed against each other in a territory rich with hydrocarbon resources. Therefore, ingenious thinking and a new formula acceptable to all concerned parties was required.

### **Special Legal Entity**

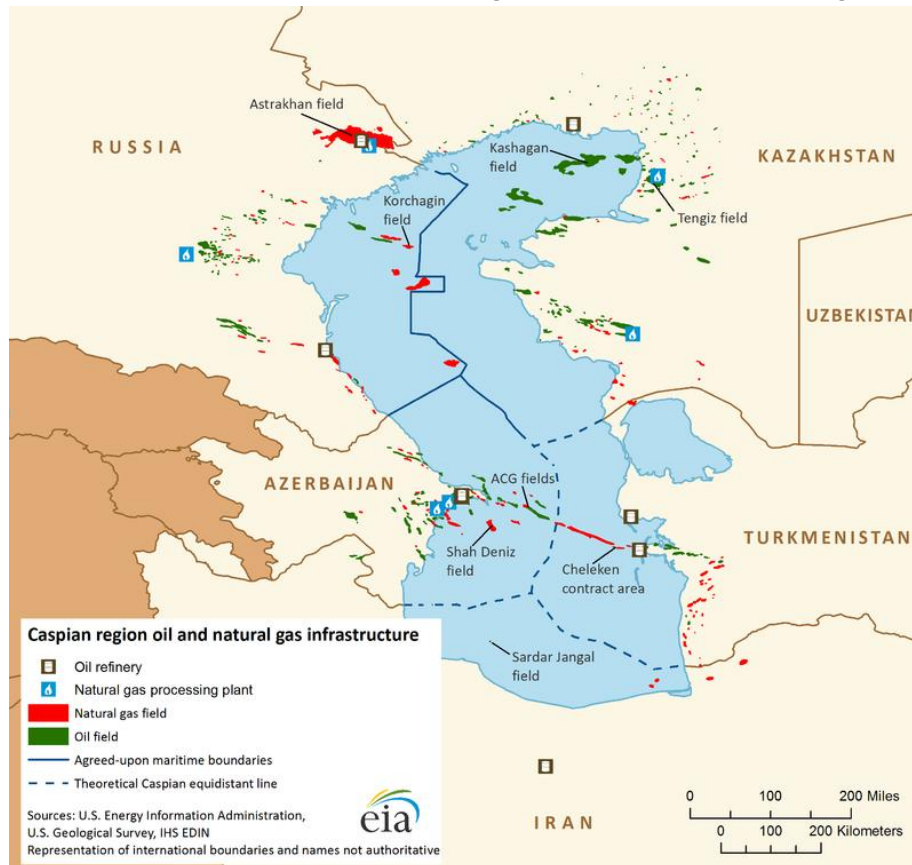
The convention declares the world's largest inland water formation neither a sea nor a lake; rather, it gives the Caspian Sea a 'special legal status'. The convention formalises the exclusive rights of all the five countries. It provides for the territorial waters within 15 nautical miles, and creates an additional 10 nautical miles of fishing zones. Beyond the total distance of 25 nautical miles is the common water area for international usage. Freedom of maritime navigation to ships of coastal states has been ensured by the convention. The five countries also agreed on the freedom of transit to other international water bodies. It also provides for the protection of environment of the Caspian Sea. Importantly, the convention opens the scope for cooperation in energy transportation and laying of Trans-Caspian energy pipelines from the region to the west and south directions. Turkmenistan-Afghanistan-Pakistan-India (TAPI) natural gas pipeline also has its resource base in the Caspian basin. Therefore, the convention gives scope to Turkmenistan and other energy producers to diversify their markets.

Certainly, with the signing of the agreement, the international profile of the Caspian Sea is to increase in terms of energy production and availability, and connectivity through the region. By way of this new multilateral arrangement, the five leaders expressed hope of increased cooperation among regional and extra-regional stakeholders. President Nazarbayev mentioned that the convention 'opens up broad prospects for strengthening peaceful cooperation in the Caspian'.<sup>3</sup> President Rouhani held that the conclusion of the Caspian legal regime convention marks a 'new step towards better and stronger relations' among the littoral states.<sup>4</sup> President Aliyev said that decisions will contribute to the further development of cooperation among Caspian littoral countries and the strengthening of security and stability in the Caspian region.<sup>5</sup> President Berdimuhamedov noted that the results of the Aktau Summit would make a 'worthy contribution to the promotion of multifaceted cooperation' in the Caspian.<sup>6</sup> Presenting a realistic assessment, President Putin said that the summit is 'indeed extraordinary, if not historic'.<sup>7</sup> He added that the convention 'opens a new stage in the relations of the Caspian states' that can bring prosperity and development to everyone. UN Secretary General Antonio Guterres said in his statement that the convention 'demonstrates the importance of regional cooperation' and is a 'significant step in the easing of regional tensions'.<sup>8</sup>

### **Why now?**

The convention was signed at a time when the contracting parties could achieve the legal, political, security and economic consensus on the Sea. Though it was signed after long negotiations, still the timing seems interesting. The convention was concluded when two leading Caspian economies, namely Russia and Iran, are facing sanctions imposed by the US. The two countries are finding it difficult to maintain and expand their trade with the Western markets. Therefore, they are trying to increase their trade and economic linkages with the Caspian states and the Eurasian region. In fact, in 2017, Russia's foreign trade in this region increased by over 20

per cent and amounted to US\$ 22 billion, while in January and February 2018 it grew by over 10 per cent.<sup>9</sup> Iran is also under increased American pressure due to the uncertainty over the Joint Comprehensive Plan of Action (JCPOA) or the Iran nuclear deal. The US exit from the deal led to scrapping of many European investment plans in Iran. America's actions have also helped Moscow and Tehran to cooperate and strengthen their bilateral relations, as evident in their coordination in Syria. Better bilateral understanding seems to have helped overcome the differences of perception on the Caspian Sea leading to the conclusion of the agreements.



Source: <https://www.eia.gov/beta/international/regions-topics.php?RegionTopicID=CSR>

### The Convention's Approach to Security in Caspian Region

The Caspian Sea area faces certain security challenges, emanating from terrorism, drug trafficking, transnational illegal activities and environmental degradation. These challenges continue to be a concern for the littoral states. The crimes in the region often involve the territories of other countries; hence, coordination among regional countries is required. The Article 17 of the Convention says that the states shall cooperate in combating international terrorism, its financing thereof, arms and drugs trafficking and smuggling of migrants by sea.

Moscow has been apprehensive about spread of separatism and Wahhabism in its southern region neighbouring Caspian. Though there is relative peace in Chechnya, tension is present between the Kremlin and the Chechen leader Ramzan Kadyrov. Occasionally, it becomes

apparent, for example, during the Rohingya crisis in Myanmar a massive protest was organised by the Chechen leader who was critical of the Kremlin's policy.<sup>10</sup>

The presence of ISIS in the region, where in 2015 it had claimed to establish a 'franchise' in the North Caucasus, is a concern for Russia and other regional countries. Hundreds of fighters from Central Asia had gone to Syria and Iraq to join ISIS. Their return to the region creates another problem for regional security and stability. This issue can be addressed through effective security cooperation in a regional framework. The convention can help create such a regional framework not only for countering terrorism but also other security challenges in the Caspian area.

Regarding the involvement of armed forces of non-littoral states, the Convention takes a clear stand to rule out any such possibility. The deal allows only the littoral states' navies to operate in the Caspian Sea and there will be no presence of any foreign force. The Article 3 (6) of the Convention categorically mentions 'non-presence in the Caspian Sea of armed forces not belonging to the Parties'. In fact, the exclusion of other countries' armed forces in the Caspian Sea is suitable for Russian and Iranian interests in the regional geopolitical environment.<sup>11</sup> The expansion of NATO, war in Syria, Russia's takeover of Crimea and sanctions are putting external pressures on these two countries. Through the convention, Russia and Iran have succeeded in closing any possibility of the presence of foreign forces in the Caspian Sea by way of alliance with other littoral states.

The Caspian Sea also addresses the human security aspect, including the ecology of the Sea and people's livelihood. The Sea produces vast quantity of marine products, providing livelihood and economic activities for many coastal people in all five states. The Sea is also home to varieties of sturgeon fish that produce caviar, which is highly demanded and one of the costliest delicacies. About 80-90 per cent of the world's caviar is sourced only from the Caspian Sea.<sup>12</sup> However, deterioration in the condition of the Sea and loss of breeding ground due to construction of dam on feeding rivers the fish variety is facing threat of extinction. It is also home to number of other fish varieties and marine products. The signing of the convention is likely to improve the health of the Sea and sustain its flora and fauna. There will be limit to the fish catch for the countries. It formalises the responsibilities each member state has to protect the future of the Caspian Sea.

### **Caspian Sea Energy**

The primary significance of the Caspian Sea is due to its abundant energy resources both in offshore deposits and onshore fields. The region is one of the world's oldest oil producing areas. In the recent years, the Sea has emerged as a major supplier of hydrocarbons to the international energy markets, especially oil and gas. It is estimated that the Caspian Sea holds about 50 billion barrels of oil and about 9 trillion cubic metres of natural gas in reserves.<sup>13</sup> The Caspian area is estimated to have about 15 per cent of the world's total reserves.<sup>14</sup>

Russia, and in recent years China, are the main buyers of these resources. Russia has been dominating the energy transportation space in Eurasia and wants to become the transporter of Caspian hydrocarbons to the West. However, Russia may face difficulties in maintaining its monopoly with the emergence of other players such as the Central Asian countries and the Caspian Sea members Kazakhstan, Turkmenistan and Azerbaijan, as independent energy suppliers.<sup>15</sup> The signing of the convention creates the possibility of laying undersea pipelines and cables provided they are in compliance with environmental standards and requirements.<sup>16</sup>

The Convention has not only increased the possibility of construction of energy pipelines but also exploitation of Caspian seabed resources. Article 14 of the Convention has laid down the provisions allowing the Parties to lay submarine cables and pipelines on the bed of the Sea. However, there are some conditions put on the laying of submarine pipelines on the bed of the Caspian Sea on the ground of compliance with environmental standards. The routes of the pipelines will be determined by the agreement with the Party through whose seabed the pipeline has to cross.

Western Europe is interested in Azerbaijan and Turkmenistan's energy resources and wants it to be shipped via the strategic Southern Gas Corridor<sup>17</sup> route. Russia and Iran have reportedly not been ready for Trans-Caspian Sea natural gas pipeline. However, due to the convention, the construction of Trans-Caspian pipeline is closer to reality now. Azerbaijan, Kazakhstan and Turkmenistan want to diversify their export destinations. Currently, the only buyer for Turkmenistan gas is China. Russia and Iran both stopped purchases from Turkmenistan. Though there are reports that Russia may restart its gas purchase.

Following the signing of the convention, Turkmenistan is likely to pursue for gas pipeline (TCP) towards European markets. This may create another energy supplier to the European market in addition to Russia, which Moscow will try to prevent. Moscow may not want any competitor in the lucrative market, where it meets one fourth of the demands. It was the largest natural gas supplier to EU in 2016 and 2017 constituting about 39 per cent and 37 per cent respectively.<sup>18</sup> Consequently, we may see Russia favouring early completion of the TAPI pipeline, which will send the Turkmen gas to South Asia and help maintain Russian supply to European market.

The European countries also want to reduce their dependence on Russia by importing energy resources from Central Asian as well as the Caspian Sea states. The US, on the other hand, has been vying for new markets in Europe. If there is an understanding among the US, Europe and the Caspian Sea states to directly source gas from the Caspian Sea region to Europe bypassing Russia it may change the energy dynamics in the Eurasian region. Such a development can adversely affect Russia and Iran's energy interests. With the signing of the Convention, Russia and Iran will have to compromise and work in a mutually beneficial arrangement in the future.

### Connectivity via Caspian Sea

The signing of the convention is important not only for the five Caspian Sea littoral states from energy perspective but also for other regional and global developments, especially in the fields of transportation and connectivity. The strategic location of the Sea makes it critical in the east-west transportation and transit. The Sea is located at the intersection connecting Europe, West Asia, Caucasus and Central Asia with each other, which makes it important for the littoral states as well as other economies, including India and China, which want to connect with European markets through Eurasian land routes. In this context, the Sea not only provides east-west connectivity, rather, it is a shorter route from South Asia to Eastern Europe in the north-south direction.

The Sea is an important connectivity passage for the nearby landlocked parts of Asia, particularly Central Asia. The Caspian Sea is linked to the international waters through the Volga-Don canal, which passes through the south-western Russia and connects the Sea to the Mediterranean Sea via the Sea of Azov and Black Sea. The canal provides Russia an important leverage to control the flow of inbound and outbound Caspian Sea traffic from other parts of the world using the route.

Nevertheless, the Convention guarantees freedom of navigation. It's Article 10 (4) reads: "The Parties shall have the right to free access from the Caspian Sea to other seas and the Ocean, and back." The convention is likely to multiply the transportation and transit potential of the Caspian Sea. It does not put any blockage on the road to build Eurasian trade and transit routes. Article 16 of the Convention says: "*Cooperation of the Parties in the Caspian Sea with natural and legal persons of States that are not parties to this Convention, as well as international organizations shall be in conformity with the provisions of this Convention.*" It, therefore, envisages cooperation on transport connectivity and transit facilities for regional and trans-regional trade.

For transport coordination, the Coordinating Committee of the Trans-Caspian International Transport Route (TITR)<sup>19</sup> was established in 2013. The project is being implemented by Kazakhstan Railways, Azerbaijan Railways, Azerbaijan Caspian Sea Shipping Company and Baku International Sea Trade port.<sup>20</sup> The launch of this route improves the transit and export prospects of the member countries and increases the competitiveness of the TITR. Moreover, in January 2016, Ukraine launched a cargo train from Illichivsk port to China via the TITR passing through Georgia, Azerbaijan and Kazakhstan.<sup>21</sup> Further advancement of the route was made when the Baku-Tbilisi-Kars (BTK) Railway was inaugurated in October 2017. This freight and passenger railway line connects Baku port in Azerbaijan to Kars in Turkey via Georgia. In January 2018, marking the launch of a new trade route, a China-Europe freight train from Urumqi in China left for Baku port in Azerbaijan via Kazakhstan.<sup>22</sup> The containers were transferred to ships bound for Baku port at Aktau port in Kazakhstan.

Besides, Iran's participation in the regional transport connectivity projects remains a key issue as Tehran has access to the Caspian Sea and the Indian Ocean. In June 2018, an Iranian vessel arrived at the Caspian port in Anzali Free Trade Zone marking the launch of the China-

Kazakhstan-Iran Multimodal Corridor.<sup>23</sup> From Urumqi in Xinjiang, the corridor passes through Kazakhstan before loading the containers onto vessels at Aktau port of the Caspian Sea. This is the second rail-ship multimodal transport corridor linking China and a Caspian Sea littoral launched in 2018 following the inauguration of the China-Azerbaijan route via Kazakhstan.

### **India and the Caspian Sea Convention**

India has made substantial investments in Caspian energy resources and the Oil and Natural Gas Corporation of India (ONGC) is present in Kazakhstan and Azerbaijan in their Caspian regions. India and other South Asian countries (Pakistan and Afghanistan) have long envisaged the TAPI natural gas pipeline. The estimated US\$10 billion TAPI pipeline has been termed as a 'key pillar' of economic engagement between India and Turkmenistan. The giant Galkynysh, which is the second largest gas field in the world, is located near the Caspian basin. This field will supply gas to TAPI. The Convention can impact TAPI in case Turkmenistan lays TCP and starts feeding gas to that pipeline from the fields marked for TAPI. However, it is also possible that Turkmenistan will be able to supply gas to both the pipelines going towards Europe and South Asia as the country has the fourth largest natural gas reserves in the world.

From the perspective of India's connectivity to Caucasus and Eastern Europe, the Caspian Sea is a critical link. The International North-South Transport Corridor (INSTC) passes through the Caspian Sea<sup>24</sup>, which has the potential to emerge as an important trade corridor connecting Asia and Europe. INSTC is about 7,200-km-long multi-mode network of waterways, rail and roads linking India to Eastern Europe through the Caspian and Caucasian regions at a shorter duration. The investment and infrastructure development on the route has been affected due to sanctions imposed on Iran. The signing of the deal by five Caspian littoral states increases the potential for investment in the region's infrastructure and exploitation of energy resources.

### **Conclusion**

The Caspian Sea is at the intersection of security, geo-strategic, geo-political and economic interests for the littoral states. These factors are also of import for other countries and players that have stakes in the region. Though some matters have been left to be discussed for future deliberations including delimitation of seabed, the Convention has addressed most of the issues related to the Caspian Sea. If implemented according to its spirit, the Convention can prove to be a milestone in regional cooperation. The clarity in the definition of the Caspian Sea expands the scope for long-term investments by international energy stakeholders, including India.

In recent years, there is growing urge for cooperation in the region as globalization is facing challenges from various quarters. The convention is likely to strengthen the ongoing trend of regional cooperation spearheaded by Russia through its economic programme of Eurasian Economic Union (EEU) as well as by Uzbekistan in the Central Asian region. The signing of the convention has the potential to influence the dynamics of trade flow and energy routing not only within the region but outside the region as well. It can have an impact on regional energy and economic equations. Given the stakes involved, including the security aspect, the Convention

creates a regional platform for Caspian Sea member states to cooperate on security, stability and development.

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*Disclaimer: The views expressed are that of the Researcher and not of the Council.*

## **Endnotes**

<sup>1</sup> Rashid Shirinov, “Date, place of Caspian Summit determined,” Azernews, 17 July 2018, <https://www.azernews.az/nation/134906.html> (Accessed on 21 September 2018).

<sup>2</sup> Trend, “Convention on Caspian Sea to expand prospects for transit cargo traffic dev’t,” 14 August 2018, <https://www.azernews.az/nation/136177.html> (Accessed on 21 September 2018).

<sup>3</sup> President of Kazakhstan, “Participation in the plenary session of the Fifth Caspian Summit,” 12 August 2018, [http://www.akorda.kz/en/events/astana\\_kazakhstan/participation\\_in\\_events/participation-in-the-plenary-session-of-the-fifth-caspian-summit](http://www.akorda.kz/en/events/astana_kazakhstan/participation_in_events/participation-in-the-plenary-session-of-the-fifth-caspian-summit) (Accessed on 25 September 2018).

<sup>4</sup> Islamic Republic News Agency, “Rouhani: No foreign force can frequent in Caspian Sea,” 12 August 2018, <http://www.irna.ir/en/News/82999001> (Accessed on 17 August 2018).

<sup>5</sup> President of Azerbaijan, “Ilham Aliyev attended the 5th Summit of Heads of State of Caspian littoral states,” 12 August 2018, <https://en.president.az/articles/29673> (Accessed on 17 August 2018).

<sup>6</sup> Embassy of Turkmenistan, Republic of Armenia – Yerevan, “President of Turkmenistan Participates in the 5th Summit of Heads of the Caspian Littoral States,” 13 August 2018, <https://armenia.tmembassy.gov.tm/en/news/15900> (Accessed on 22 September 2018).

<sup>7</sup> “Fifth Caspian Summit”, *President of Kremlin*, August 12, 2018. <http://en.kremlin.ru/events/president/news/58296> (Accessed on 13 August 2018).

<sup>8</sup> United Nations, “Secretary-General Welcomes Signing of Historic Convention on Caspian Sea’s Legal Status as Significant Step towards Easing Regional Tensions,” 13 August 2018, <https://www.un.org/press/en/2018/sgsm19163.doc.htm> (Accessed on 22 September 2018)

<sup>9</sup> “Fifth Caspian Summit”, *President of Kremlin*, op.cit.

<sup>10</sup> Kathrin Hille, “Chechen ruler hits out at Russia over Myanmar policy”, Financial Times, September 4, 2017. <https://www.ft.com/content/f25212fa-918d-11e7-bdfa-eda243196c2c> (Accessed on 20 August 2018).

<sup>11</sup> “Convention on Caspian Sea establishes legal groundwork for regional security, closer cooperation”, *Xinhuanet*, August 13, 2018, [http://www.xinhuanet.com/english/2018-08/13/c\\_137387454.htm](http://www.xinhuanet.com/english/2018-08/13/c_137387454.htm) (Accessed on 25 September 2018).

<sup>12</sup> BBC, “Caspian Sea: Five countries sign deal to end dispute,” 12 August 2018, <https://www.bbc.com/news/world-45162282> (Accessed on 14 September 2018).

<sup>13</sup> Radio Free Europe/Radio Liberty, “Convention On Caspian Sea’s Legal Status To Be Signed On August 12, Kremlin Says,” 10 August 2018, <https://www.rferl.org/a/convention--caspian-sea-signed-on-august-12-russia-azerbaijan-kazakhstan-turkmenistan-iran/29425991.html> (Accessed on 21 September 2018)

<sup>14</sup> DownToEarth, “The Caspian affair,” 28 June 2015, <https://www.downtoearth.org.in/coverage/the-caspian-affair-15339> (Accessed on 14 September 2018)

<sup>15</sup> Russia’s reaction towards the Baku-Tbilisi-Ceyhan (BTC) pipeline has not been positive. Even the Southern Gas Corridor (SGC) or ‘East West corridor’ did not receive good reaction from Russia.



<sup>16</sup> “Fifth Caspian Summit”, *President of Kremlin*, op.cit.

<sup>17</sup> The Southern Gas Corridor (SGC) is planned with the aim of improving the security and diversity of the EU’s energy supply by transporting natural gas from the Caspian region to Europe by using and upgrading the South Caucasus Pipeline (SCP), Trans Anatolian Pipeline (TANAP) and Trans-Adriatic Pipeline (TAP). The main supply source would be the Shah Deniz gas field, located in the Caspian Sea region of Azerbaijan.

<sup>18</sup> Eurostat, “EU imports of energy products - recent developments,” April 2018, [https://ec.europa.eu/eurostat/statistics-explained/index.php/EU\\_imports\\_of\\_energy\\_products\\_-\\_recent\\_developments#Trend\\_in\\_extra-EU\\_imports\\_of\\_energy\\_products](https://ec.europa.eu/eurostat/statistics-explained/index.php/EU_imports_of_energy_products_-_recent_developments#Trend_in_extra-EU_imports_of_energy_products) (Accessed on 9 October 2018).

<sup>19</sup> The leaders of National Company Kazakhstan Temir Zholy, Azerbaijan Railways, and Georgian Railway signed Agreement on the establishment of Coordination Committee for the development of the Trans-Caspian International Transport Route as part of the Second International Transport and Logistics Business Forum “New Silk Road” in Astana on November 6-7, 2013.

<sup>20</sup> At present, the regular members of TITR include Azerbaijan Caspian Shipping, Azerbaijan Railways, Aktau International Sea Commercial Port, Baku International Sea Trade Port, Batumi Sea Port, Georgian Railways, Kazakhstan Railways, TCDD Transportation of Turkey and Ukraine’s Ukrzaliznytsia.

<sup>21</sup> “Feature: Ukraine-China cargo train on Silk Road opens up prospects for trade promotion”, *Xinhuanet*, February 1, 2016, [http://www.xinhuanet.com/english/2016-02/01/c\\_135062009.htm](http://www.xinhuanet.com/english/2016-02/01/c_135062009.htm) (Accessed on 17 August 2018).

<sup>22</sup> “New China-Europe freight train route launched”, *Xinhua*, 20 January 2018, [http://www.xinhuanet.com/english/2018-01/20/c\\_136911059.htm](http://www.xinhuanet.com/english/2018-01/20/c_136911059.htm) (Accessed on 23 August 2018).

<sup>23</sup> “New Transport Corridor Links Iran’s Caspian Port to China, Kazakhstan”, *Financial Tribune*, 26 June 2018, <https://financialtribune.com/articles/economy-business-and-markets/88744/new-transport-corridor-links-irans-caspian-port-to-china> (Accessed on 23 August 2018).

<sup>24</sup> The INSTC secretariat is based in Tehran and India, Iran and Russia are its founding members. Belarus, Kazakhstan, Tajikistan, Oman, Armenia, Azerbaijan, Syria, Ukraine, Turkey and Kyrgyzstan are other members. Bulgaria is an observer.