IRAN'S ROLE IN THE ENERGY SECURITY OF THE CASPIAN BASIN

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Energy security has inarguably become an indispensible entity and occupies a significant place in contemporary geo-politics. The oil boom across the Persian Gulf in the latter part of the 20th century has culminated in a virulent race for the possession and exploitation of this precious energy resource. But of late (since the 1990s), the Caspian Sea Basin has attracted much international attention with the discovery of abundant reserves of oil and gas. As far as statistical data goes, the proven oil reserves of the entire region are less than a third of those of Iran or Iraq; the proven gas reserves are about half as much as Qatar's. In fact, taking into account the possible oil reserves, the region far outweighs the proven reserves of Saudi Arabia or those of both Iran and Iraq combined.[1] As for possible gas reserves, Turkmenistan alone has as much as the proven reserves of Saudi Arabia. Strictly speaking, the possible gas reserves of the entire Caspian Basin are comparable to those of the combined proven reserves of Saudi Arabia, Iraq and the UAE.[2]

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1. Paul Kubicek, "Energy Politics and Geopolitical Competition in the Caspian Basin", *Journal of Eurasian Studies* (Elsevier: Seoul, 2013) vol. 4, no. 2, pp. 171–180.
2. Ibid.

Table 1: Caspian Proven and Portable Offshore Reserves as of 2012[3]

Country	Crude Oil Condensate (billion bbl)	Natural Gas (trillion cf)
Azerbaijan	6.8	51
Iran	0.5	2
Kazakhstan	15.7	36
Russia	1.6	14
Turkmenistan	1.1	9
TOTAL	25.7	112

Sources: US Energy Information Administration, IHS EDIN, Eastern Bloc Research Energy Databook 2012.

Going by the trend, notwithstanding the advantage that Iran enjoys more or less as a result of its strategic geographic location at the crossroads of West, Central and South Asia, it also has the potential to emerge as a strong regional power by usurping the leverage enjoyed by the 'big three' (Russia, China and the West), in terms of serving as an exit route for the Caspian oil and gas.[4] This study will, therefore, provide some insight into the larger oil politics of the Caspian Sea Basin, focussing mainly on the inevitable role of Iran in driving the energy security of the region. It will also examine why the Iranian option is more advisable compared to the rest of the hitherto existing energy transit routes in the region.

The five Caspian littoral nations (Azerbaijan, Kazakhstan, Turkmenistan, Russia and Iran) have long been trying to evolve a consensus regarding the demarcation of their respective territorial waters and seabed exploratory rights in the Caspian Sea—the larger goal being the equitable distribution of oil and gas deposits among one another.[5] Of the five Caspian littorals,

3. Gene Kliewer, "New Caspian Developments Show High Potential", November 12, 2013, see http://www.offshore-mag.com/articles/print/volume-73/issue-11/caspian/new-caspian-developments-show-high-potential.html, accessed on June 20, 2014.
4. Daniel Sherman, "Caspian Oil and New Energy Politics", May 25, 2000, see http://www.freezerbox.com/archive/print.php?id=55, accessed on June 6, 2014.
5. Farid Rauf Oglu Shafiyev, "The Legal Regime of the Caspian Sea: View of the Littoral States", *Global Research and Analysis* (Prism, June 30, 2001) vol. 7, no. 6, see http://www.jamestown.org/single/?tx_ttnews%5Btt_news%5D=28012&tx_ttnews%5BbackPid%5D=223#.U8yz8fmSzT0, accessed on June 7, 2014.

Azerbaijan, Kazakhstan and Turkmenistan enjoy a major share in the reserves. But, the disadvantage of being landlocked has invariably forced them to depend on neighbours (nations with ports having access to the world's oil markets) for exporting their produce. Till recently, Russia alone had supplied the energy transit for the Caspian oil and gas; but now, the West [the US and the European Union (EU), with support from regional allies like Turkey and Georgia] as well as China have also come on a level-playing field with the former.[6] It is in this regard that Iran acquires an important role in providing a viable solution to the dilemma involved in transporting Caspian energy to its global customers.

Iran's geographical location is both economically and strategically significant since it serves as a bridge connecting the landlocked Caspian Sea with the Persian Gulf and the Arabian Sea (part of the larger Indian Ocean). With the exception of Azerbaijan (with which it has had pulsating trade relations due to the former's predominantly pro-Western inclination,[7] and due to ethno-cultural issues[8]), both Kazakhstan and Turkmenistan enjoy excellent economic linkages with Iran. Such strong trade ties have had a larger beneficiary, say, for example, in a major oil importer like China. China has always remained cautious when confronted with the question of constructing pipelines from Central Asia to its territory. The issue becomes problematic for the pipelines have to pass through rugged terrain (the Tien Shan mountain range) and certain conflict-prone regions (like the restive Xinjiang province). Although China went on to construct oil and gas pipelines from Kazakhstan and Turkmenistan respectively, the ever-looming threat of sabotage (by Uighur separatist rebels) persists. Such fears have been addressed to a considerable extent by the 'oil swap' agreement inked in 1997, between Iran and the Caspian trio (with Kazakhstan and Turkmenistan initially taking a more proactive role, compared to a West-

6. Kubicek, n.1, pp. 171–180.
7. Ariel Farrar-Wellman, "Azerbaijan-Iran Foreign Relations", April 8, 2010, see http://www.irantracker.org/foreign-relations/azerbaijan-iran-foreign-relations, accessed on June 6, 2014
8. "Iran- Azerbaijani Relations in 2013: Decrease in Trade, Border Clashes, Cultural Wars'', December 28, 2013, see http://www.panorama.am/en/interviews/2013/12/28/a-israyelyan/, accessed on June 10,2014.

Recent findings have confirmed that the Caspian region, as a whole, contains some of the most abundant hydrocarbon reserves outside the already well-exploited Persian Gulf region. In this context, the region has witnessed, and perhaps has been witnessing, a tussle among major players in gaining a foothold over its vastly untapped energy wealth.

leaning Azerbaijan).[9]

Under the arrangement, the oil from the three Caspian littorals is taken to the refineries in northern Iran (Tehran, Tabriz and Arak). The refined products are used within the country to meet its ever-increasing domestic energy demand. In the meanwhile, Iran exports an equal share of its crude (from the oil fields in the south/south-west) via its terminals along the Persian Gulf, the Sea of Oman and the Arabian Sea (for example, Bushehr, Kharg Island, Bandar-e-Abbas, Jask and Chahbahar), to the energy-hungry Asian consumers as well as the Western markets.[10] As a result, Iran has managed to circumvent the logistical hurdles in transporting its crude (in the south), all the way to the refineries in the north. Moreover, a win-win situation is created, wherein the supplier, intermediary and customer are at an advantageous position. As a matter of fact, analysts agree that Iran represents the best route for energy transfer in the region, as this route is shorter and less costly than the Russia, Turkey and China routes.[11] Nevertheless, the energy-rich Caspian states would obviously prefer to cooperate with Iran, rather than bowing down to the suzerainty of the 'big three' (Russia, the West and China).

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9. "Iran Resumes Oil-Swap", *The Moscow Times* (Moscow), November 15, 1997, see http://www.themoscowtimes.com/sitemap/paid/1997/11/article/iran-resumes-oil-swap/297473.html, accessed on June 7, 2014.
10. "Oil-Swaps", The British Iranian Chamber of Commerce, see http://www.bicc.org.uk/in-iran.html, accessed on June 5, 2014.
11. "Iranian Options Most Economically Viable for Exporting Caspian Oil", *Oil & Gas Journal*, March 17, 2003, see http://www.ogj.com/articles/print/volume-101/issue-11/general-interest/iranian-options-most-economically-viable-for-exporting-caspian-oil.html, accessed on June 6, 2014.

already well-exploited Persian Gulf region. In this context, the region has witnessed, and perhaps has been witnessing a tussle among major players in gaining a foothold over its vastly untapped energy wealth.[12] Contrary to the 'big three', Iran has adopted a more accommodative posturing towards the Caspian oil-producing trio by conforming to the 'oil swap' agreement. After being at the receiving end of a prolonged spell of criticism and punitive sanctions from the West, Iran's strategic advantage in this regard will certainly force its adversaries to shun their anti-Iran rhetoric. And, most importantly, Iran could gradually lessen its dependence on other countries for finished petroleum products, which is all the more important considering the difficulty it faces in transporting its crude from the south to the refineries in the north. Nonetheless, if taken up and pursued in a more proactive manner, the 'oil swap' arrangement could provide a way out for Iran, with respect to the sanctions in the transfer of technology (which have curtailed its ability to construct a sufficient number of refineries in close proximity to its oil wells in the south).

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The safe conduit of the Caspian oil and gas has been of utmost priority to both the Caspian trio and its end users across the world. Once again, this has inarguably led to intense competition among the governments and associated oil giants of foreign players, for gaining leverage as the preferred carriers of the Caspian oil and gas to world markets. Both Azerbaijan and Kazakhstan have so far been able to maintain a balance in allocating their oil fields equitably among the Russian, Chinese and Western oil companies. Turkmenistan, under its former President Niyazov, had been initially reluctant to invite foreign tenders (especially from the West and China); but since 2005 (under Gurbanguly Berdimuhamedow), has been actively negotiating with Chinese companies. To that degree, a gas pipeline

12. Kubicek, n. 1, pp. 171–180.

Whereas Russia (rigorously pursuing an energy-driven economic resurgence under strongman Putin) vehemently tried to restrict the energy conduit through its already-existing vast network of pipelines (constructed during the Soviet times), there were fruitful as well as futile attempts by the West to reduce its dependence on the Russian transit network.

was successfully constructed, taking Turkmen gas to the Xinjiang province of China via Uzbekistan and Kazakhstan.[13]

In the early 1990s, following the collapse of the Soviet Union, Russia was more focussed on reconstructing its shattered economy, and, hence, was negligent about the problems faced by the CIS (Commonwealth of Independent States).[14] The Caspian nations were in dire need of technological investment, in order to exploit their potential oil wealth.[15] The Western oil giants—the likes of Chevron, BP, Shell, Exxon Mobil, Eni and so on—were spot on to grab hold of this golden opportunity. Agreements were signed for the prospecting and drilling of oil in the Kashagan and Tengiz oil fields of Kazakhstan and the Shah Deniz oil fields of Azerbaijan.[16] However, rather than extraction and refining of oil, it was a question of transporting the extracted produce to the end users, which posed a serious challenge to the recipient nations and participating conglomerates.

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13. BBC Monitoring Research in English July 25, 2007 BBC Monitoring Central Asia, "ANALYSIS: Turkmen Gas Deal Extends Chinese Influence", *Central & Southern Asia Pipelines News*, July 25, 2007, see http://www.downstreamtoday.com/news/article.aspx?a_id=5015&AspxAutoDetectCookieSupport=1, accessed on June 9, 2014.
14. Irina Zviagelskaia, *The Russian Policy Debate on Central Asia* (Royal Institute of International Affairs: London, 1995).
15. Kubicek, n.1, pp. 171–180.
16. Vadim Rubin, "The Geopolitics of Energy Development in the Caspian Region: Regional Cooperation or Conflict?", Centre for International Security and Cooperation Conference Report (IIS: Stanford, 1999), see http://www.stanford.edu/group/CISAC/, accessed on June 8, 2014.

especially vis-à-vis its geography, was more open to the Western agenda of "inducing greater diversity" to the Caspian pipeline network.[17] Soon, China also forayed into the Caspian energy scramble. Initially, it seemed as though China simply wanted to grab a piece of the pie; however, with an actively opportunistic outlook, excellent diplomatic manoeuvring and a business-as-usual approach, it has certainly been taking giant leaps amidst the consistent locking of horns between the Russians and the West.[18]

To curtail the Russian energy-transit monopoly over the Caspian oil, Turkey took up the issue of congestion in the straits by the ever-increasing shipping traffic (posing danger to its largest and most populous city, Istanbul). The Russian response was a proposal to build a pipeline from the Bulgarian Black Sea port of Burgas to the Greek Aegean port of Alexandroupolis.

Presently, a large number of pipelines transport the Caspian oil to its worldwide consumers. While a majority of these goes northward criss-crossing the Russian Caucasus, increased Western and Chinese intervention has ensured the proliferation of pipelines both westward as well as eastward. Needless to say, Russia still exercises a monopoly over the old Soviet pipeline infrastructure traversing the North-South Caucasian corridor. The Northern Route, constituting the Baku-Grozny- Tikhoretsk-Novorossiysk oil pipeline, is the handiwork of the Caspian Pipeline Consortium (in which the Russian oil giant, Transneft is the major stakeholder). It takes oil from the Sangachal terminal (near Baku) to the Novorossiysk terminal in the Russian Black Sea coast. It would then be shipped to the end users in the West and elsewhere, moving from the Black Sea into the Mediterranean through the Straits of Bosphorus and Dardanelles (Turkey).[19] To curtail the Russian energy-transit monopoly

17. Peter Rutland, "Oil, Politics and Foreign Policy", in David Lane, ed., *The Political Economy of Russian Oil* (Rowman and Littlefield: Latham 1999).
18. Mark Berniker, "China's Hunger for Central Asian Energy", *Asia Times Online*, June 11, 2003, see http://www.atimes.com/atimes/Central_Asia/EF11Ag01.html, accessed on June 9, 2014.
19. Andrei Shoumikhin, "Russia: Developing Cooperation on the Caspian", in Michael P Croissant and Bulent Aras, eds., *Oil and Geopolitics in the Caspian Sea Region* (US: PraegerPublishers: 1999) pp. 131-154.

over the Caspian oil, Turkey took up the issue of congestion in the straits by the ever-increasing shipping traffic (posing danger to its largest and most populous city, Istanbul). The Russian response was a proposal to build a pipeline from the Bulgarian Black Sea port of Burgas to the Greek Aegean port of Alexandroupolis (referred to as the Trans-Balkan pipeline), thereby bypassing the straits.[20] However, with the withdrawal of Bulgaria from the plan, the project so far remains in the doldrums.[21]

The West's desire for a dominant stake in the Caspian energy transit was realised with the commissioning of the Baku-Tbilisi-Supsa oil pipeline, connecting the Sangachal terminal to the Supsa terminal (a western Georgian Black Sea port). From Supsa, the oil would be shipped to the southern Ukrainian port city of Odessa; from where it would be transported to Brody (in the Ukraine-Poland border) via the Odessa-Brody oil pipeline.[22] But, without doubt, a significant achievement in the oil transit through the Western Route was the establishment of the Baku-Tbilisi-Ceyhan (BTC) oil pipeline. The BTC pipeline (or main export pipeline, as it is called) terminates at the Ceyhan terminal, a southeastern Turkish Mediterranean coastal city. Further, the BTC consortium boasted of an enthralling conglomeration of eleven multinational oil companies.[23] Moreover, a proposal has been floated to construct an undersea Trans-Caspian pipeline, to link the Kazakh and Turkmen oil fields and terminals in the eastern Caspian coast with a number of tributary pipelines in the western coast; and, finally, connecting to the BTC pipeline. However, the above idea has been marred by criticism pertaining to the adverse environmental impacts of such an undertaking.[24]

20. "Project Overview", see http://www.tbpipeline.com/, accessed on June 15, 2014.
21. "Bulgaria Abandons Burgas-Alexandroupoli Oil Pipeline Plan", February 6, 2013, see http://www.ekathimerini.com/4dcgi/_w_articles_wsite2_1_06/02/2013_482321, accessed on June 12, 2014.
22. Emil Souleimanov and Filip Černý, "The Southern Caucasus Pipelines and the Caspian 'Oil Diplomacy: The Issue of Transporting Caspian Oil and Natural Gas to World Markets", 2012, vol. 11, no. 4, pp. 81-84, see www.usc.es/revistas/index.php/rips/article/download/696/690, accessed on June 24, 2014.
23. Ibid., pp. 87-91.
24. "Trans-Caspian Pipelines – Ecological Concerns of Turkmenistan...," *The Free Library, 2011 Al Bawaba (Middle East) Ltd.*, July 21, 2014, see http://www.thefreelibrary.com/Trans-Caspian+Pipelines+--+Ecological+Concerns+of+Turkmenistan.-a0250749847, accessed on June 17, 2014.

The Chinese footprint in the Caspian oil trade became pronounced towards the close of the 20th century. Over the past decade, the China National Petroleum Corporation (CNPC) has invested heavily in the Caspian off-shore and on-shore oil and gas fields of Kazakhstan and Turkmenistan respectively. The Kazakhstan-China oil pipeline and the Trans-Asia gas pipeline (taking Turkmen gas through Uzbekistan and Kazakhstan to Xinjiang), are by far, the best examples of China's inroads into the Caspian energy trade. As a matter of fact, these ventures come under the ambit of China's ambitious "Reviving the Ancient Silk Route" programme.[25]

Fig 1[26]

Source: "Turkmenistan", *ANALYSIS BRIEFS*, January 25, 2012, see http://www.eia.gov/countries/cab.cfm?fips=TX

25. n.13.
26. "Turkmenistan", *ANALYSIS BRIEFS*, January 25, 2012, see http://www.eia.gov/countries/cab.cfm?fips=TX, accessed on June 12, 2014.

Despite the incessant competition among the major players for a monopoly over the control of the Caspian energy transit, their efforts are not devoid of stumbling blocks. Say, for example, all the three pipeline routes, be it the Northern (Russia-dominated), Western (US/EU/Turkey-dominated) or Eastern (China-dominated), have to traverse considerably long distances, running through uncharted territories consisting of rugged terrain and volatile conflict-prone regions. In fact, the Russian pipeline network along the Northern Route passes in close proximity to the Chechen Autonomous Region and Dagestan Republic, regions which have witnessed violence since the First Chechen War of 1994.[27] Moreover, some of the pipelines in the Russian territory (those built during the Soviet era) have come under heavy criticism for being obsolete, and, therefore, non-resistant to corrosion. To that extent, Russia had initially refused to transport Kazakh oil through some of its pipelines, citing excess sulfur content in the oil.[28] Neither is the Western Route bereft of hurdles. It passes through the Nagorno-Karabakh region, which has seen violent ethnic clashes between the Karabakhi Armenians and the Azerbaijani state. Nonetheless, the BTC pipeline goes through southeastern Turkey, where the Kurdistan Workers' Party (KPP) has long been waging a turf-war against the Turkish government forces, demanding secession and establishment of an independent state. To add to the woes, the pro-Russian breakaway provinces of South Ossetia and Abkhazia pose a threat to the safety of the Baku-Tbilisi-Supsa pipeline in Georgia.[29] And as said earlier, the proposal for a Trans-Caspian undersea pipeline has come under the scanner for possible environmental degradation and sea water contamination. (The pipeline, if supposedly ruptured, could release poisonous hydrogen sulfide gas into marine and coastal life).[30]

27. Adam Rodriguez, "Oil Export for a Unified Caspian Oil Conglomerate", Autumn 2002, see http://web.stanford.edu/class/e297a/Unified%20Oil%20Conglomerate.htm, accessed on June 8, 2014.
28. Kubicek, n.1, pp. 171–180.
29. Rodriguez, n.27.
30. n. 24..

As with the Eastern Route, the Tien-Shan mountain system poses a huge challenge to the safety of the pipelines. On the one hand, the region is prone to earthquakes (it is situated in a seismically-active belt where the Indian plate continuously pushes onto the Eurasian continental plate); and on the other, besides the construction costs, even maintenance of the pipelines in such difficult-to-access rugged topography involves massive expenditure.[31]

In addition to all these factors, corrupt practices on the part of both the government regimes and oil companies in awarding/winning tenders have hindered all-round progress. This has been rather critically reflected in the inability of the host governments to sustain the financing of the pipelines over a long period of time. For example, the US, which paid a whopping $200 million in subsidies for the construction of the BTC pipeline, remains concerned over the ability of the Azeri government in financing and overseeing the maintenance of the pipeline.[32]

Having taken into account the above-mentioned constraints, Iran enjoys the position to take advantage of the situation. Several surveys and feasibility studies conducted till date, have confirmed that the Iranian Route offers the safest, and perhaps the most cost-effective, option for transporting the Caspian oil to its end users.[33] As stated earlier, a more active pursuit of the oil-swap agreement would enable Iran to eventually realise its long-awaited goal of attaining self-reliance and self-sufficiency in meeting its burgeoning demand for energy. Add to this, the cost-effectiveness and a relatively better safety guarantee that is ensured in the process. Likewise, any increase in oil-swaps can be comprehended with the construction of a trans-Iranian pipeline for the transit of the Caspian oil and linking it to

31. "China's Central Asia Problem", International Crisis Group Asia Report (ICG: Brussels, February 27, 2013), see http://www.crisisgroup.org/~/media/Files/asia/north-east-asia/244-chinas-central-asia-problem.pdf, accessed on June 7, 2014.
32. Hossein Askari and Roshanak Taghavi, "Iran's Financial Stake in Caspian Oil", *British Journal of Middle Eastern Studies* (Taylor & Francis Ltd, May 2006), vol. 33, no. 1, pp. 1-18, see http://www.jstor.org/stable/20455422, accessed on June 12, 2014.
33. "Iranian Options Most Economically Viable for Exporting Caspian Oil", *Oil & Gas Journal*, March 17, 2003, see http://www.ogj.com/articles/print/volume-101/issue-11/general-interest/iranian-options-most-economically-viable-for-exporting-caspian-oil.html, accessed on June 6, 2014.

the already existing pipeline network within Iran.[34] Fortunately, Iran has a well-connected railway network cutting across its northern frontier. This could serve as a direct linkage between its Caspian Sea ports and the major refineries. For instance, the crude shipped from the Caspian oil terminals to the Iranian Caspian sea ports of Neka and Amirabad, is taken to the major refineries in Tabriz, Tehran and Arak in oil tankers (through rail); which is a testimony to the well-equipped railway network (suffice to remember that there is already a pipeline network in this route).[35]

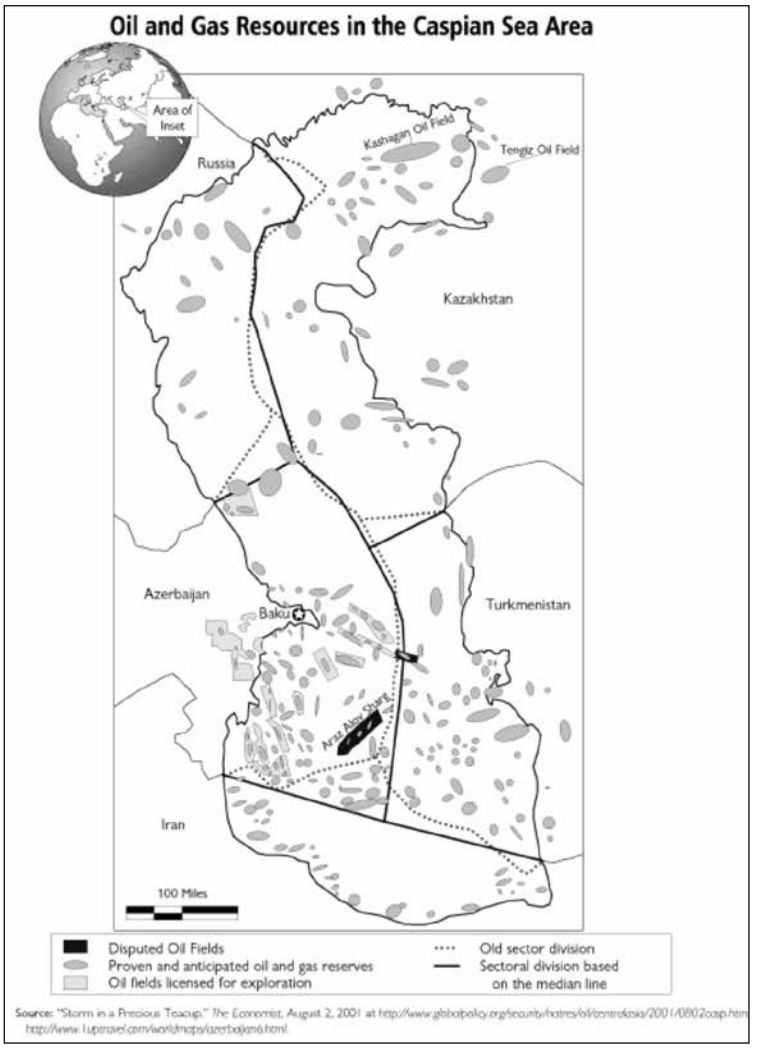
To properly understand Iran's intentions and priorities in the Caspian Basin, it is necessary to provide an insight into the dilemma surrounding the legal status of the water body; plus the contentions over its territorial (seabed) demarcation among the Caspian littorals. Various agreements signed in 1921, 1935 and 1941 respectively between Iran and the then USSR, recognised the Caspian Sea as an inland lake (a claim disputed by the West) over which both nations had joint rights. This was reiterated in the Almaty Conference of December 1991 (by then, the USSR had split into four states). Accordingly, the international obligations to which both Iran and the USSR were subject to, would also apply to the three new Central Asian states plus Russia.[36] According to this agreement, the littorals would form a 'condominium' and jointly prospect for oil in the Caspian Basin. Moreover, each state had the power to veto any proposal; due to which it would be difficult to evolve a consensus. Iran supports the 'condominium method', as it stands to benefit from the overall mechanism: not only would it gain from the oil and gas production but also from levying transit fees and oil-swap charges for transporting the Caspian oil through its territory (either through pipelines or as oil-swaps). For this reason, Iran even suggested the formation of a "Caspian Oil and Gas Company", which would be jointly owned by the five littoral countries. To that effect, Iran officially put forth its objective of forming a "Council of Caspian Sea Countries".[37]

34. Askari and Taghavi, n. 32, pp. 1-18.
35. "Neka-Ray Crude-Oil Pipeline Pumping Stations and Related Installations", see http://www.kayson-ir.com/project.aspx?name=nekaray&cat=energy, accessed on June 17, 2014.
36. Askari and Taghavi, n. 32, pp. 1-18.
37. Ibid.

However, not long after the Almaty Conference, there came up talks of dividing the seabed in consonance with the "Modified Median Line Principle" (MMLP). Accordingly, the seabed ought to be divided using median lines, i.e. lines equidistant from the closest mainland points of each of the two countries. Further, any deposits and structures falling along the median line would be divided equally between both countries, even if there are more on one side of the line than on the other.[38] In this regard, Kazakhstan and Azerbaijan agreed to adopt this mechanism, until there could be a consensus on the legal status of the Caspian Sea. Soon after, Turkmenistan also came into the picture, agreeing to conform to the median line method. In a similar development (in July 1998), Russia forged a bilateral agreement with Kazakhstan, deciding to divide the Northern Caspian seabed along median lines; yet maintaining dual ownership of its waters. As per the arrangement, whereas the seabed was to be divided, the surface waters were to be mutually shared between both countries for economic activities like fishing, shipping, etc. Following the MMLP meant that Kazakhstan would get 28.4 percent of the seabed, Azerbaijan 21 percent, Russia 19 percent, Turkmenistan 18 percent; and Iran would end up as the sore loser with just 13.6 percent of the seabed.[39]

38. Ibid.
39. Ibid.

Fig 2[40]



Iran, therefore, raised its protest, calling for an equal division of the seabed among the five littorals. In fact, the Iranians were not willing to agree to any arrangement that would fetch them less than 20 percent ownership of the seabed. However, it is to be strictly noted that the above division had no

40. Aerial Cohen, "Iran's Claim over Caspian Sea Resources Threaten Energy Security", September 5, 2002, see http://www.heritage.org/research/reports/2002/09/irans-claim-over-caspian-sea-resources-threaten-energy-security, accessed on June 14, 2014.

credibility, since in practical terms, the Caspian Basin could not be uniformly divided amongst the five nations: primarily, it had no definite geographical shape; and secondly, such a division would amount to possible overlapping of boundaries. As a consequence, Iran's assertion was rejected outright by the rest of the countries.[41] Soon, Turkmenistan followed suit, calling for certain amendments in the MMLP. For Turkmenistan, in addition to the division of the seabed into different sectors along median lines, each sector was to encompass an area extending up to 45 miles of the width of the adjoining median line, inside which the respective state shall have exclusive rights. Subsequently, Kazakhstan would get 26.8 percent of the seabed, Azerbaijan 12.7 percent, Russia 12.9 percent, Turkmenistan 12 percent; and Iran having to once again settle for a mere 10 percent. Additionally, the jointly shared area would increase to 25.5 percent.[42] This time, it was Azerbaijan which came up with resentment. The Azeris were justified in their action, as they risked losing a large share of the seabed (which had been guaranteed to them under the MMLP). Moreover, both Azerbaijan and Turkmenistan had (and continue to have) differing claims over the territoriality of the Kapaz/ Sardar oil field.[43]

Notwithstanding reservations from Iran and Turkmenistan, the MMLP has hitherto fared better compared to the several suggestions that were made in regard to the division of the Caspian seabed.

Notwithstanding reservations from Iran and Turkmenistan, the MMLP has hitherto fared better compared to the several suggestions that were made in regard to the division of the Caspian seabed. The main reason behind this is its acceptance by the majority: Russia, Kazakhstan, Azerbaijan, and to an extent, Turkmenistan (succumbing to fatalism). Regardless of their ulterior motives, each country's action has its own rationale. Russia, by means of joint ownership of the territorial waters (not the seabed), seeks to

41. Hooshang Amirahmadi, "Challenges of the Caspian Region", in Hooshang Amirahmadi, ed., *The Caspian Region at a Crossroad: Challenges of a New Frontier of Energy and Development* (New York: St. Martin's Press, 2000), pp. 1-25.
42. Ibid.
43. Ibid.

The lack of consensus among the littorals, formerly over the disputed legal status of the Caspian (sea or lake?) and subsequently over the demarcation of the seabed, manifested in a series of summits of the heads of the Caspian Sea littoral states; the latest of which was held in Baku, in 2010.

serve its own agenda of having a mobilised naval presence in the Caspian. Kazakhstan has often been obliged to conform to the Russian viewpoint for the following factors: it is dependent on Russia for military aid, it harbours a 35 percent Russian (Slavic) minority in the north, who virtually enjoy a monopoly in the movement of essential food grains; and lastly, 55 percent of Kazakhstan's imports come from Russia.[44] One cannot brush aside the fact that Kazakhstan is the biggest beneficiary of the MMLP. As for Azerbaijan, by endorsing the MMLP, it has managed to walk the tightrope between Russian hegemony and an enterprising USA. Unlike its Central Asian counterparts, Turkmenistan chose a more balanced and pragmatic stance, siding with Iran on the uniform distribution of the Caspian Basin; while simultaneously consenting to endorse the MMLP if the '45 mile' recommendation is given due consideration.[45]

The lack of consensus among the littorals, formerly over the disputed legal status of the Caspian (sea or lake?) and subsequently over the demarcation of the seabed, manifested in a series of summits of the heads of the Caspian Sea littoral states; the latest of which was held in Baku, in 2010. On a brighter note, in a meeting of foreign ministers of Caspian littorals convened in Moscow recently (April 22, 2014), Iranian Foreign Minister Javed Zarif spoke of ensuring "sustainable peace in the Caspian Sea region for the economic development and prosperity of its people".[46] The next summit of the heads of the Caspian littorals (the fourth such summit, till date) will take place in the Russian Caspian port city of Astrakhan, later

44. Ibid.
45. Ibid.
46. "Iran FM Urges Lasting Peace in Caspian Sea", April 22, 2014, see http://www.presstv.in/detail/2014/04/22/359639/iran-urges-lasting-peace-in-caspian-sea/, accessed on June 28, 2014.

this year.[47] Throwing light on the praiseworthy advances made by the Rouhani regime in improving relations with its Caspian littoral counterparts (especially Azerbaijan),[48] hopes remain high over the expeditious settlement of the important and immediate regional issues.

By all accounts, the need of the hour is a proactive energy diplomacy initiative from Iran. Considering the stalemate that the Caspian littorals have intentionally or inadvertently put themselves in, the time is ripe for reconciliatory measures aimed at steering themselves out of the quagmire. Nevertheless, even if the MMLP is adopted as the only practical solution to a proportionate division of the Caspian seabed, the fact of the matter is that Iran would be able to exploit 17 percent of the seabed (which includes the area that coincides with the median lines, separating the Iranian sector from those of Azerbaijan and Turkmenistan respectively).[49] However, the most important are the benefits that could arise from Iran taking up the role of the primary energy transit provider for the Caspian oil and gas. Strictly speaking, Iran needs to enhance and expedite its oil-swaps with the trio. Besides this, all possible options for the construction of a trans-Iranian pipeline ought to be given utmost priority.

The trans-Iranian pipeline, once operational, would connect the Iranian Caspian Sea port of Neka in the north to the southern Persian Gulf port of Jask, adjoining the Sea of Oman.[50] In a series of constructive developments, the National Iranian Oil Company signed a contract agreement with a South Korean company for the construction of the 1,680-km-long pipeline (October 7, 2011).[51] This comes as no surprise, considering the fact that South Korea is among the leading importers of Iranian oil. Moreover, the trans-Iranian pipeline would facilitate the oil-swaps with the Caspian triumvirate. Thereby, with a conducive and well-supported infrastructure and logistics base, the

47. Ibid.
48. Stephen Blank, "Is an Irano-Azerbaijani Rapprochement Taking Place?", May 21, 2014, see http://www.cacianalyst.org/publications/analytical-articles/item/12980-is-an-irano-azerbaijani-rapprochement-taking-place?.html, accessed on June 30, 2014.
49. Askari and Taghavi, n.32, pp. 1-18.
50. Ibid.
51. "S Korea Signs on to Trans-Iran Pipeline", October 7, 2011, see http://edition.presstv.ir/detail/203348.html, accessed on June 30, 2014.

Iranian government can confidently vouch for an increase in the volume of oil-swaps with the Caspian trio. The Rouhani Administration has already been engaging in some active energy diplomacy; specially in appealing for a hike in the volume of the Central Asian crude oil, which is shipped (in barrels) in oil tankers to the port of Neka.[52] Not to mention the fact that starting July 2, 2011, the oil-swaps resumed in full swing after an unwarranted year-long hiatus.[53] In another rather surprising development, even Russia seems to have come to terms with the overall sustainability and preference for the Iranian oil-swap arrangement. In October last year, during a visit to Moscow, the Iranian Oil Minister Bijan Namdar Zanganeh discussed the possibility of conducting oil-swaps, with Russian officials. Hence, there is every possibility that Russia may also soon follow the Caspian trio in forging an oil-swap deal with Iran.[54] If it materialises, this will be considered a wiser move on the part of Russia: because, on the one hand, it has abundant, (or for that matter), a majority, of its hydrocarbon deposits/fields, in areas other than the Caspian region; whereas, on the other, it already enjoys a monopoly over its vast network of pipelines supplying oil and gas from these fields to the markets of Western Europe and East Asia.[55]

As has been pointed out so far, though Iran can boast of its credentials as a major exporter of crude oil, the unilateral sanctions of the US have curtailed its ability to export let alone make optimal use of its abundant natural gas reserves (the second largest in the world, after Russia[56]). The stringent punitive sanctions over the transfer of technology have resulted in Iran not being able to convert its huge stockpiles of natural gas into liquefied form, or LNG (Liquefied

52. Arron Merat, "Rouhani's Central Asia Policies in Spotlight at SCO Summit", September 15, 2013, see http://www.al-monitor.com/pulse/tr/originals/2013/09/rouhani-central-asia-policy-at-sco-summit.html, accessed on June 29, 2014.
53. "NIOC to Allow Oil Swap by Private Sector", November 9, 2011, see http://www.presstv.in/detail/209235.html, accessed on June 24, 2014.
54. "Iran, Russia May Ink Crude Oil Swap Deal: Report", October 30, 2013, see http://tehrantimes.com/economy-and-business/111822-iran-russia-may-ink-crude-oil-swap-deal-report, accessed on June 20,2014.
55. "Russia may Become World's Leader in Oil Reserves – Russian Minister", February 19, 2014, see http://voiceofrussia.com/2014_02_19/Russia-may-become-world-s-leader-in-oil-reserves-Russian-minister-0808/, accessed on June 30, 2014.
56. "Iran: Country Analysis Brief Overview", May 30, 2013, see http://www.eia.gov/countries/country-data.cfm?fips=ir, accessed on June 19, 2014.

Natural Gas); which is the domestically usable form of natural gas. Not to forget, conversion into LNG is the only viable method for transporting gas in oil tankers; especially for supply to the eastern markets like India and the Far Eastern markets of Asia (like China, South Korea and Japan). But recently (in March 2014), in the process of reducing its unprecedented dependence on gas imports (which is very unfortunate and shocking for a country with the world's second largest gas reserves), Iran entered into an agreement with the Sultanate of Oman. As per the deal, Iran would export LNG to the Asian markets, via an LNG plant/terminal in Oman. The Omani oil tankers would then ship the processed gas to the Asian consumers. Both countries have already proposed to build a gas pipeline for transporting Iranian gas from its southern gas fields (mainly the South Pars gas fields) to the Omani LNG terminal.[57] This would further incentivise Iran to also canvass with the Caspian trio for more gas-swap agreements.

Besides the LNG option, Iran already exports natural gas *per se* to its consumer nations, via pipelines. However, its hitherto existing pipelines extend only till neighbouring Iraq and Turkey. Therefore, in order to realise its potential as a leading gas exporter, Iran is forced to further extend its pipeline dominance to the gas-thirsty markets in Europe and (South and East) Asia. Luckily for Iran, the recent Ukrainian imbroglio and the Russian threat of blocking gas supply to Europe (in response to the sanctions), have forced the Europeans to reduce dependence on Russian gas and look for alternatives.[58] In this regard, Iran has virtually capitalised on the unfolding situation. A Persian pipeline (the Iran-Turkey-Europe gas pipeline) has been proposed to directly connect the South Pars gas fields to Europe, traversing countries like Turkey, Greece, Italy, Switzerland, Austria, France and Spain.[59] Coinciding with these developments, during last November, Iran finally managed to negotiate an interim deal, with the P5+1 countries, for a

57. Benoît Faucon, "Iran Considering Exporting LNG via Plant in Oman", *The Wall Street Journal* (Middle East News), March 17, 2014, see http://online.wsj.com/news/articles/SB10001424052702303287804579445373706670940, accessed on June 23, 2014.
58. "Iran Ready to Supply Europe with Natural Gas: Official", May 8, 2014, see http://www.presstv.com/detail/2014/05/08/361803/iran-ready-to-export-gas-to-europe/, accessed on June 27, 2014.
59. "Iran Starts Persian Gas Pipeline Construction", May 30, 2009, see http://edition.presstv.ir/detail/96451.html, accessed on June 21, 2014.

temporary reduction in economic sanctions, in exchange for its agreeing to reduce its uranium enrichment level to below 20 percent; and allowing the International Atomic Energy Agency (IAEA) access to its nuclear facilities. With the gestation period (provided for meeting the obligatory clauses) set to expire on November 24, 2014, (extended from the initial deadline of July 20), pragmatists and neo-liberals across the world are expecting committed and calculated measures from both sides.[60] Hopefully, with the eventual lifting of sanctions (a process already underway, albeit at a snail's pace), Iran could invite increased participation from foreign companies to develop the necessary infrastructure for oil and gas production/transportation.

Fig 3[61]

Source: "Turkmenistan", *ANALYSIS BRIEFS*, January 25, 2012, see http://www.eia.gov/countries/cab.cfm?fips=TX

60. Mick Krever and Joshua Berlinger, "Nations Agree to 4-Month Extension of Iranian NuclearNegotiations", July 21, 2014, see http://edition.cnn.com/2014/07/19/world/meast/iran-nuclear-negotiations-extension/, accessed on July 22, 2014.
61. "Turkmenistan", *ANALYSIS BRIEFS*, January 25, 2012, see http://www.eia.gov/countries/cab.cfm?fips=TX, accessed on June 12, 2014.

With regard to the proposed Persian gas pipeline, Iran remains confident of bringing in Chinese participation, considering the fact that China is the largest beneficiary of Iran's crude oil exports; plus the largest foreign investor in Iran's technical infrastructure.[62] Regretfully, back in 2010, a Swiss company had pulled out from the proposed project, fearing US sanctions.[63] However, assuming the possibility of an all-pervading thaw in relations between Iran and the West, the project is expected to be revived. Once operational, it will serve as a more cost-efficient alternative to the already proposed Nabucco pipeline connecting Azerbaijan to Central Europe via Turkey, Bulgaria, Romania, Hungary and Austria.[64] Additionally, the idea of an Iran-Iraq-Syria gas pipeline was also floated. However, in spite of the preliminary construction work on the pipeline; the project was put on the back-burner, following the Syrian "Civil War".[65]

Notwithstanding the demand for its gas in the West (Europe), Iran has kept keen eyes on the Asian markets too. India is the biggest consumer of Iranian crude, after China.[66] Currently, India has refrained from committing itself to the proposed Iran-Pakistan-India (IPI) gas pipeline (citing its transit through the volatile conflict-prone provinces of Baluchistan and Sindh). But seeing a possible win-win outcome in such a venture, Iran has even offered to re-route the pipeline by bypassing Pakistani territory (instead taking it through the off-shore/sub-sea Pakistani continental shelf).[67] In return, Iran expects India to hike its crude oil purchases to pre-sanction levels.

62. Natalie Coomber, "Standing Up Against Nabucco", July 14, 2009, see http://www.hydrocarbons-technology.com/features/feature59516/, accessed on June 16, 2014.
63. Benjamin Weinthal, "Swiss Adopt EU Sanctions on Teheran", January 26, 2011, see http://www.jpost.com/Iranian-Threat/News/Swiss-adopt-EU-sanctions-on-Teheran, accessed on June 25, 2014.
64. "Iran Plans Gas Link to Europe Distinct from Nabucco", *Reuters*, October 19, 2008, see http://company9688.ecasb.com/en/news/87, accessed on June 24, 2014.
65. Dmitry Minin, "The Geopolitics of Gas and the Syrian Crisis: Syrian "Opposition," Armed to Thwart Construction of Iran-Iraq-Syria Gas Pipeline", June 3, 2013, see http://www.globalresearch.ca/the-geopolitics-of-gas-and-the-syrian-crisis-syrian-opposition-armed-to-thwart-construction-of-iran-iraq-syria-gas-pipeline/5337452, accessed on June 28, 2014.
66. "India's January-June Iran Oil Imports Climb by a Third", July 23, 2014, see http://economictimes.indiatimes.com/industry/energy/oil-gas/indias-january-june-iran-oil-imports-climb-by-a-third/articleshow/38923129.cms, accessed on July 24, 2014.
67. Amitav Ranjan, "Buy More Oil Will Re-route Pipeline: Iran", May 22, 2013, see http://archive.indianexpress.com/news/buy-more-oil-will-reroute-pipeline-iran/1118948/, accessed on June 17, 2014.

With the Iranian transit route outweighing the other West-owned pipeline routes (like the BTC) in various parameters, the US is slowly coming to terms with the importance that Iran holds as a security-guarantor in the Caspian energy transit.

Furthermore, the other incentives promised by Iran are: discounts for the Indian crude oil purchases and willingness to enter into a production-sharing agreement with India's ONGC Videsh Ltd, for the Farzad-B gas field, its first such contract.[68] Nonetheless, Iran has also agreed to invest a part of the surplus revenues in constructing an LNG terminal in Chahbahar, for shipment of gas exclusively to India. [It is to be remembered that Chahbahar port development is part of India's "strategic cooperation" agreement with Iran, for developing the (Iranian) North-South corridor: India's gateway to the Caspian and Central Asia][69].

China and Iran have had strong trade ties, ever since formal diplomatic relations were established in 1971.[70] Not to mention the fact that China continued to invest heavily in Iranian trade and infrastructure, often unperturbed by the looming threat of sanctions. Although China operates a gas pipeline from Turkmenistan to its northern Xinjiang province, the ever-present conflict-vulnerability in the route, coupled with an unquenchable domestic demand for energy, has pushed China into investing considerably in Iran's oil and gas fields. Moreover, it is already actively participating in the infrastructural development activities to link Iran's northern Caspian ports to the southern Persian Gulf ports, so as to facilitate the quick and efficacious transit of Caspian gas through Iranian territory.[71] To meet the prerequisites for converting the natural gas to LNG (for shipment by tankers), CNPC and other Chinese companies have been awarded tenders by the Iran Liquefied Natural Gas Company (ILC), to jointly build and operate

68. Ibid.
69. Ibid.
70. John S. Park, "Iran and China", see http://iranprimer.usip.org/resource/iran-and-china, accessed on June 22, 2014.
71. "Iran Calls on Chinese to Enter Multi-Billion-Dollar Energy Deals", *Tehran Times*, July 11, 2009, see www.payvand.com/news/09/jul/1106.html, accessed on June 22, 2014.

LNG terminals.[72] With a hopeful reduction in sanctions, there is every possibility that Japanese and South Korean companies will soon also be also vying for stakes in the Iranian oil and gas sector.

Apart from the presumably profound merits that the Iranian transit route enjoys in the technical, economical and environmental spheres, it also presents its geo-political advantages for the West.

The US presently does not import any oil or gas from Iran. Firstly, it has its other sources in the Persian Gulf (like Saudi Arabia, Kuwait, UAE, Iraq, Qatar, etc); secondly, its dependence on Persian Gulf oil and gas is gradually declining in relation to its increasing preference for crude oil from alternative sources like Africa (Angola, Nigeria, etc), Latin America (Venezuela, Ecuador, etc) and Canada; the latter being its own backyard.[73] Nevertheless, the ongoing advancement in 'fracking' technology (fracking is the method used for extracting gas trapped between shale rock formations, by employing high-pressure water jets) and the subsequent shale gas revolution, would mean that the US would attain self-sufficiency, albeit not long-lasting enough, in meeting its demand for natural gas.[74]

Meanwhile, with its eyes set on the increasing relevance of the Caspian oil and gas reserves, the US hopes to churn out a fairly fruitful stake in the Caspian's immense resource wealth. And as mentioned earlier, with the Iranian transit route outweighing the other West-owned pipeline routes (like the BTC) in various parameters, the US is slowly coming to terms with the importance that Iran holds as a security-guarantor in the Caspian energy transit. Moreover, the US government can no longer ignore the long-repeated demand of American multinational oil companies like Chevron

72. Ibid.
73. "US Imports by Country of Origin", *Petroleum & Other Liquids*, June 27, 2014, see http://www.eia.gov/dnav/pet/pet_move_impcus_a2_nus_ep00_im0_mbbl_m.htm, accessed on July 5, 2014.
74. Paul Stevens, "The 'Shale Gas Revolution': Developments and Changes", *Briefing Paper* (The Royal Institute of International Affairs: London, August 2012), see http://www.chathamhouse.org/sites/files/chathamhouse/public/Research/Energy,%20Environment%20and%20Development/bp0812_stevens.pdf, accessed on July 6, 2014.

Corporation and Conoco Phillips to invest in the Iranian oil and gas sector.[75] Resonating with these appeals were the words of Iranian Oil Minister Bijan Zanganeh in a meeting of OPEC oil ministers (last December), the first of its kind since the interim nuclear deal was struck; he expressed his desire for the return of seven major Western multinational oil giants listed herewith: Total of France, Royal Dutch Shell, Italy's ENI, Norway's Statoil, Britain's BP (British Petroleum) and US companies, Exxon Mobil and Conoco Phillips.[76] Apart from the presumably profound merits that the Iranian transit route enjoys in the technical, economical and environmental spheres, it also presents its geo-political advantages for the West: a West-driven strategy, pivoted on an official embracement of the Iranian transit route for the Caspian oil and gas, combined with further active encouragement (mainly through financial assistance), would help weaken Russian suzerainty in the Caspian region.

Contrary to what most naysayers think, an Iran-West rapprochement may not necessarily create an unfillable void in the Iran-Russia bonhomie. One reason for this is that Russia is currently more focussed on exploiting its newly discovered hydrocarbon reserves in the Sakhalin, West Siberian (Priobskoye and Samotlor) and East Siberian (Yamal-Nenets) regions. Moreover, it has already set its eyes on the vast untapped potential of the Arctic (with which Russia shares the longest coastline).[77] Thereby, through such diversification strategies and pragmatic innovations, Russian oil and gas would continue to retain their huge market base. And regardless of a probable equilibrium shift in the energy trade, Russia-Iran defence ties would continue to foster smooth sailing in the rough seas.[78] The same applies to China, which would be largely unperturbed by the possibility

75. Jay Solomon, "Oil, Auto Companies Make Plans to Invest in Iran if Sanctions Ease", *The Wall Street JournalL (Middle East News)*, July 1, 2014, see http://online.wsj.com/articles/oil-auto-companies-make-plans-to-invest-in-iran-if-sanctions-ease-1404257812#, accessed on July 8, 2014.
76. "Iran Names 7 Western Oil Companies It Wants to Return", December 4, 2013, see www.reuters.com/article/2013/12/04/**iran-oil**-idUSL5N0JJ2A420131204, accessed on July 2, 2014.
77. Andrey Korzhubayev, "Siberia's Oil Future", *Archive No. 1*, 2011, see http://www.oilru.com/or/46/968/, accessed on July 15, 2014.
78. George L. Simpson, Jr., "Russian and Chinese Support for Tehran", *The Middle East Quarterly*, vol. 17, no. 2, Spring 2010, pp. 63-72, see http://www.meforum.org/2690/russian-chinese-support-for-iran, accessed on July 12, 2014.

of a thaw in Iran-West relations. Needless to say, this is best showcased in China's rigorous pursuit of its highly ambitious and far-sighted "New (Overland and Maritime) Silk Road Programme".[79]

Summing up, Iran's inevitable participation in the Caspian energy transit, in one way or the other, holds benefits for all the players involved in the energy scramble. However, the incentives for both Iran and the Caspian trio are remarkably more significant. In the case of Iran, it would help stem the huge gap between being a major producer of petroleum; and yet not being able to sufficiently harness it (for domestic consumption). And as for the three Central Asian Republics, they would be able to export their oil and gas to the consumer nations, in the cheapest possible way. Encapsulating the above two equations, it may be surmised that both parties are undoubtedly in receipt of a win-win situation. Needless to say, the governments of the respective nations must incorporate radical reforms in their energy sectors, to ensure the smooth conduct of trade. Without doubt, development of the necessary infrastructure should be given utmost priority. Moreover, there needs to be a greater impetus towards imparting transparency and accountability in the governments' policies in this regard—whether it is in awarding tenders/contracts to foreign players or in managing the flow of funds. Not to forget, an investment-friendly approach with least complacency and corruption will reap maximum dividends. If these steps are seriously taken into consideration, it would not be long before the world realises the true potential of the Caspian region.

79. Shannon Tiezzi, "China's 'New Silk Road' Vision Revealed", May 9, 2014, see http://thediplomat.com/2014/05/chinas-new-silk-road-vision-revealed/, accessed on July 1, 2014.