

## The Azerbaijan – Turkmenistan Dispute in the Caspian Sea

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### Introduction

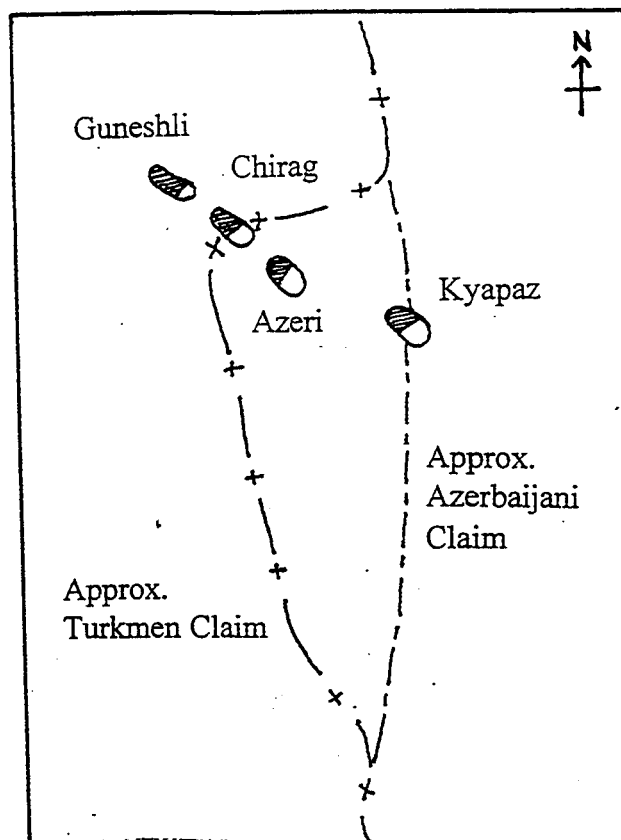
The governments of Azerbaijan and Turkmenistan spent the best part of 1997 engaged in a diplomatic dispute over three promising oil fields in the southern Caspian Sea. The war of words began with a Turkmen protest over Azerbaijani plans to develop the 'Azeri' and 'Chirag' oil fields, before attention shifted to what became the more significant dispute over the 'Kyapaz' field. This article will summarise the course of the dispute, and try to disentangle the claims, counter-claims, and numerous shifts of position by the Azerbaijani, Turkmen and Russian governments. For ease of reference, the three oil fields in question will be called by the Azerbaijani-given names above; 'Chirag', 'Azeri' and 'Kyapaz', while the author freely accepts that the Turkmen-given names 'Kaverochkin', '26 Baku Commissars' and 'Serdar' respectively may be just as appropriate. The approximate layout of the disputed fields is shown in Figure 1.<sup>1</sup> The approximate location of the area depicted in Figure 1 is illustrated on Figure 2.

### Opening Moves

The roots of the dispute lie in an interview in the *Financial Times* in January 1997 in which Turkmenistan's President Saparmurad Niyazov apparently claimed that the Azeri field belonged to Turkmenistan, as it was allegedly situated in Turkmen territorial waters. The Azeri field was one of three fields; Azeri, Chirag and Guneshli, covered by the 'Deal of the Century' which Azerbaijan struck with an eleven-member foreign consortium in September 1994. On 26 January, the Azerbaijani Foreign Ministry formally requested that Turkmenistan clarify Niyazov's statement, while rebutting the Turkmen claim by stating that the Azeri field was "situated in the Azerbaijani sector of the Caspian Sea and was explored by Azerbaijani specialists in the 1970s."<sup>2</sup>

The scope of the dispute became a little clearer the following day, when Hasan Hasanov, Azerbaijan's Foreign Minister, renounced Turkmenistan's claims to the Azeri and Chirag fields. In doing so, Hasanov laid out the basis for Azerbaijan's claim to

Figure 1: The Disputed Fields



the disputed fields. He stated that in 1970, the former Soviet Ministry for the Oil Industry had divided the Caspian into sectors, assigning a sector to each of the littoral Soviet republics. This was done using something Hasanov apparently called the "so-called middle line method."<sup>3</sup> It is not absolutely clear that this refers to an equidistance or median-line method that may be recognisable to many readers. In an interview with Turkmenistan's First Deputy Foreign Minister Yolbars Kepbanov in May 1997, the author was shown a sketch map of the Caspian, said to show the method used by the former Soviet Oil Ministry in delimiting the Caspian. In essence, a number of 'straight' lines were drawn east-west across the Caspian, and the midpoint of each of these lines formed a turning point for the boundary line. This is rather different from a strict equidistance line, but could be viewed as a simplified form of equidistance. A slightly 'anglicised' depiction of this sketch map is shown in Figure 2.

The maps depicting this delimitation were said by Hasanov to "clearly indicate that the Azeri and Chirag oil fields belong to the Azerbaijani sector of the Caspian Sea."<sup>4</sup> However, Hasanov's official letter to his Turkmen counterpart also struck a conciliatory note by stating that Azerbaijan felt that there were a number of fields which straddled the two countries' border in the Caspian, and offered the possibility of talks on joint prospecting and development in these areas. Although little was made of this at the time, it will be seen later that this phrase may have been more significant in Baku's eyes than it first appeared. Azerbaijan also proposed that a bilateral commission be created for the demarcation of the two countries' sectors.

In what was essentially an aside to the specifically Azerbaijani-Turkmen dispute, Natiq Aliyev, President of Azerbaijan's state oil company SOCAR, actually expressed some pleasure at what he described as "positive aspects" of Turkmenistan's claim. Aliyev took the opportunity to further Azerbaijan's claims that the Caspian should be entirely delimited into national sectors by saying that Niyazov's claim that Azeri and Chirag lie "in the Turkmen sector" showed that Turkmenistan was in favour of the delimitation of the Caspian into national sectors.<sup>5</sup> This is as opposed to the designation of parts or all of the Caspian as a condominium, as supported by Russia, Iran and, generally, Turkmenistan. Natiq Aliyev also suggested, perhaps a little optimistically, in the same statement that the Turkmen claims must be incorrect as the members of the 'Deal of the Century' consortium had "studied this issue in detail and would never have signed the contract if there had been any doubt."

It then looked as if the two sides might be able to avert any real diplomatic conflict, when on 31 January, it was claimed that "a normal dialogue is underway to decide the fate of the two oil fields in the Caspian shelf."<sup>6</sup> Turkmenistan's Deputy Foreign Minister Kepbanov went on to lay out his government's position on this dispute in particular, and also on the wider issue of the delimitation of the Caspian as a whole. Kepbanov explained that Ashkhabad felt that until the issue was decided by agreement of all five littoral states (Russia, Kazakhstan, Turkmenistan, Azerbaijan and Iran) the legal regime of the sea should be based on two treaties between Iran and the former Soviet Union in 1921 and 1940. Neither of these documents have anything of any great note to say on the issue of boundaries in the Caspian itself, save for a

reference to 10 nautical mile-wide national fishing zones, and a description of the Caspian as a "Soviet and Iranian Sea." Interestingly, Kepbanov also suggested that the sea should be 'divided', at least for now, in accordance with the pre-1991 administrative division of the Soviet sectors, but claimed that maps of this arrangement showed that Azeri and part of Chirag lay in Turkmen waters.

Perhaps significantly the Russian government, which has so often proved the final arbiter in disputes of this kind between the former Soviet republics, remained silent throughout these initial exchanges. That reticence ended on 16 February when Ambassador Felix Kovalyov, head of a Russian working group on the Caspian issue, made it clear in a statement to the press that Russia did not support Turkmenistan's claims. In fact, it seemed clear that Russia disapproved of the dispute on principle: "We favour the adoption of a convention on the legal status of the Caspian Sea, and we have never recognised any unilateral actions nor will do so in the future", said Kovalyov.<sup>7</sup>

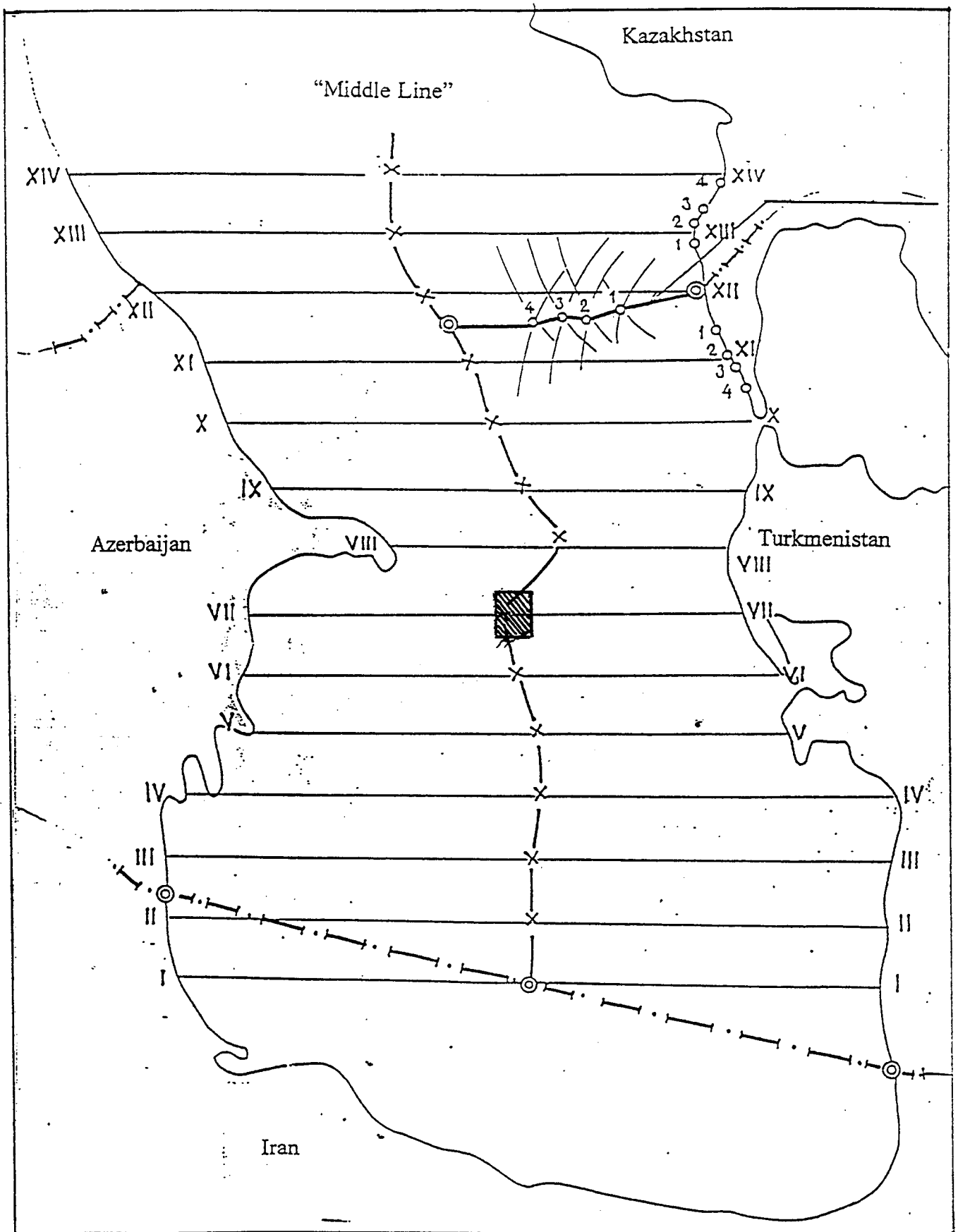
There was then something of a lull in the dispute, with little press comment on the issue, although it seemed there may have been some negotiation on the matter between the two governments. This was certainly implied by a report of 11 March, in which Turkmenistan's Oil and Gas Minister Gochmurad Nazdhanov claimed that the two sides would probably come to some sort of compromise, "in the framework of the Treaty of Caspian Countries and an associated UN convention."<sup>8</sup> However, he also claimed that Turkmenistan might consider approaching the United Nations to arbitrate if the two sides could not come to an agreement.

### The Dispute Widens

The peace was brought to an abrupt end on 4 July, when Azerbaijan's President Aliyev announced the signing, in Moscow, of an agreement between his country (through SOCAR) and Russia's LUKoil and Rosneft oil and gas companies on exploration of the Kyapaz field. Turkmenistan immediately issued a "strong protest" to Russia and condemned Azerbaijan for taking further unilateral action over the Caspian oil fields in the absence of any negotiation with the Turkmen government, or any of the other littoral states for that matter.<sup>9</sup>

Perhaps unsurprisingly, two days later, the Turkmen government resurrected the unresolved issue of the Azeri and Chirag fields, notifying Baku that it

Figure 2: The Location of the Dispute and the “so-called middle line”



reserved the right to take Azerbaijan to court over the development of the two fields. Turkmenistan's Deputy Foreign Minister Kepbanov said that his country had been "*forced, after three months, to return to this issue because Azerbaijan has still not responded to an offer to set up a bilateral commission to determine ownership of these deposits.*"<sup>10</sup> However, Baku played down the Turkmen protests, saying that they had never refused to negotiate with Ashkhabad, although there were differences over the timetable of such negotiations.

Further details of the Azerbaijani-Russian deal emerged on 8 July. Under the agreement, SOCAR would take a 50% stake in a production-sharing arrangement, with LUKoil taking 30% and Rosneft taking the remaining 20%. Ashkhabad reiterated its objections to the deal, and stated once again its claim that Chirag partially and Azeri wholly belonged to Turkmenistan.<sup>11</sup> On the same day, Russia's Fuel and Energy Ministry issued a statement, making it clear that Russia was not keen to discuss the Kyapaz sovereignty issue, considering the production agreement to be "*a purely commercial deal, concluded by private companies of Russia and Azerbaijan.*" There then followed an intriguing comment: "*private Russian companies enjoy considerable freedom of action, which does not always coincide with Moscow's official position.*"<sup>12</sup> This seemed to be an admission of the widely noted tension between large Russian business interests and the Russian government. However, it also provided the first hint that the Kremlin was uncomfortable at the prospect of being drawn into a row with Turkmenistan over the sovereignty of the Kyapaz field, and was perhaps attempting to distance itself from the whole affair.

Russia's obvious reluctance to issue a positive rebuttal of Turkmenistan's claims prompted some Azerbaijani observers to suggest that Russia and Turkmenistan might be rather more comfortable bedfellows than Russia and Azerbaijan. They went so far as to suggest that Russia might give over some of its share in the Kyapaz deal to Ashkhabad, bringing the Turkmen in on the deal to prevent conflict with a close partner in the region. It was also suggested that the Baku government had softened its stance somewhat in the absence of strong Russian support, the Azerbaijani Foreign Ministry apparently offering to sit down and negotiate on the matter with Turkmenistan, and not

ruling out Turkmen involvement in the development of Kyapaz.<sup>13</sup>

Two weeks later, on 24 July, it was revealed that Presidents Aliyev of Azerbaijan and Niyazov of Turkmenistan had spoken personally on the matter, and had agreed to "*a more concrete discussion*" of their dispute.<sup>14</sup> However, Terry Adams, the head of the Azerbaijan International Operating Company (AIOC), the consortium involved in developing Chirag and Azeri, claimed on the same day that he was "*convinced*" that if the matter went to court, his consortium would win.<sup>15</sup> Three days later, Vefa Gulizade, an adviser to Aliyev on international affairs, claimed that the two Presidents had settled their existing problems and that it was possible Turkmenistan would be brought on board.

### Russia Backs Down

On the same day though, Russia's concern over the Turkmen reaction to the Kyapaz deal was highlighted by the arrival in Ashkhabad of a delegation led by Vice Premier Valeriy Serov, officially there to discuss "*economic cooperation*", but with the dispute certain to top the agenda as far as the Turkmen were concerned.<sup>16</sup>

The first signs of a Russian shift on the issue came the next day, on 28 July. Serov claimed that the Russians had only entered into the deal because they thought Baku and Ashkhabad had some sort of "*understanding*" over the oil field. Russian Deputy Foreign Minister Boris Pastukhov, who was also in Ashkhabad, went so far as to say that his ministry would not have "*given a green light*" to the agreement if it had been informed of it, and it was claimed that the Russian government had had no inkling that the deal was being planned.<sup>17</sup> However, this was not good enough for President Niyazov, who claimed that the agreement had been signed in the presence of Russia's Deputy Prime Minister Boris Nemtsov. Niyazov also said that his country would not allow any work on the Kyapaz field without its express agreement, and this was underlined by an announcement that Turkmenistan was organising "*weekly observation from the air of Caspian deposits and watching to ensure no work is done on them.*"<sup>18</sup> Meanwhile, it seemed that Baku was also shifting its stance on the issue, or at least trying to shift the blame. In an address to a national conference, President Aliyev claimed that the deal had been signed at *Russia's* suggestion, on the back of another deal concerning the Yalama deposit. Aliyev stated: "*this was not done on our initiative. We know this deposit is on the border, part of it is*

in the Azerbaijani sector and part in Turkmenistan's sector. The Russian LUKoil and Transneft [all other reports say Rosneft] companies showed interest in this deposit, they said they were signing a protocol with us and would then sign a protocol with Turkmenistan."<sup>19</sup>

At the end of the month it became clear that Turkmenistan had secured the Kremlin's cooperation, when Rosneft announced on 31 July that it was withdrawing from the development of Kyapaz.<sup>20</sup> While it was claimed that a working group had been set up to go to Baku and Ashkhabad to work out new agreements, it was obvious that political pressure had caused the Russian energy company to reexamine the attractiveness of the deal in the face of determined Turkmen opposition. LUKoil followed suit on 2 August,<sup>21</sup> saying it did not regard the Moscow deal as a contract, but as the start of talks between the three sides on the future development of the field. On the same day, Azerbaijan's Prime Minister Rasizade reiterated his government's somewhat altered position that "Azerbaijan has never regarded the Kyapaz deposit as its sole property, because the deposit is located in the gap between its own sector and the Turkmen sector of the Caspian."<sup>22</sup>

The possibly explosive nature of such disputes was made clear on 2 August with an announcement from Ashkhabad that it intended to "reinforce" (in fact, create) its navy on the Caspian. Apparently it had already been agreed that Turkmen officers would train for the job at a Pakistani naval establishment, and Niyazov claimed that his government was in talks with Iran to obtain "fast military patrol ships."<sup>23</sup> Up to now, there has been little question of violent clashes on the Caspian because only Russia has been allowed to maintain any real naval presence there, thanks to clauses in the various Caspian treaties with Iran, granting Russia sole rights to a naval presence. Also, Russia retained sole control over the former Soviet Caspian Flotilla on the breakup of the Soviet Union, moving the formation to a new base in Astrakhan from Baku. However, it was only a matter of time before the constant wrangling over the Caspian's resources encouraged the other littoral states to consider how they might enforce their claims.

Rubbing salt into Baku's wounds, by 7 August Russia had formally informed Turkmenistan of its decision to annul the 4 July agreement, but had not so informed Azerbaijan. In fact, on 7 August, Russia's President Yeltsin met with Niyazov in a

summit that ended with a declaration that Russia and Turkmenistan intended to pursue "a strategic partnership" and work toward a comprehensive agreement on the Caspian's legal status.<sup>24</sup> Consequently, President Aliyev's assurances on 8 August that he was not worried by Russia's withdrawal from the agreement, as it was in no-one's interest to rescind such a "protocol of intent," rang slightly hollow.

### The Aftermath

As a result of these actions it became clear that Azerbaijan had been outmanoeuvred by Turkmenistan, probably quite easily when one bears in mind the state of Russian-Azerbaijani relations in the past. Meanwhile, it appeared that SOCAR had gone into denial over the whole thing, claiming on 18 August that since it had not received any formal documents annulling the agreement from either of its Russian partners, it was not necessarily prepared to believe media reports on the matter.<sup>25</sup>

The following day, things went from bad to worse from an Azerbaijani point of view, when in a rather obvious diplomatic 'shot' at Baku, Ashkhabad announced it intended to jointly develop Kyapaz with Russia and Iran, although the Turkmens did offer to allow Azerbaijan in on the project.<sup>26</sup> However, a few days later, an Azerbaijani newspaper reported that "sources" in the Russian Foreign Ministry had claimed to have no information to that effect, so while Russia, Iran and Turkmenistan already have an agreement to cooperate in unspecified projects in the Caspian, it is possible that Niyazov's announcement was primarily intended to 'needle' Aliyev.

In the final 'aggressive' act in this dispute, on 2 September, Ashkhabad included Kyapaz in a series of concessions which it opened for tender at a convention in Houston, Texas.<sup>27</sup> The Turkmens also threatened to put Azeri and Chirag up for tender in subsequent rounds. Azerbaijan's only response was to declare that "not a single serious company will show interest in the tender."<sup>28</sup> There may be something in the Azerbaijani position, as it seems extremely unlikely that any major Western companies will bid for concessions in the disputed area after witnessing the serious political fallout generated by the Azerbaijani attempt to develop Kyapaz. On the other hand, Russia's obvious support for Turkmenistan might prompt serious consideration of the idea, most Western companies quite openly regarding Russia as the dominant player in the Caspian.

By 27 September, both sides had announced that the other had agreed to participate in a joint commission to determine their sovereignty in the southern Caspian, with a meeting of experts, including lawyers, surveyors and oilmen to convene sometime in October.

While there were no reports on that meeting before the end of the year, there was one very significant move in the wider Caspian delimitation debate. On 17 October, an "expert" in Russia's foreign Ministry told *Interfax* news agency that Russia did not intend to maintain its position that the Caspian be delimited into 45nm national zones, with the remaining central core being managed as a condominium of all five littoral states. According to the expert "[Russia] will not insist on that proposal because it could not be the core of a compromise [on the status of the Caspian Sea]. We should think of another approach."<sup>29</sup> While the source emphasised that Russia still opposed any division of the sea, it seems possible that the Azerbaijan-Turkmenistan dispute has forced a serious rethink of Moscow's position, as it becomes clear that the Caspian may soon effectively be delimited in a functional sense whether Russia likes it or not.

Talks between Azerbaijan and Turkmenistan apparently faltered towards the end of the year, it being reported that Turkmenistan had, after all, appealed to the UN for help in resolving the dispute. A "well-informed source" in the Turkmen Foreign Ministry reported that his country had decided to approach UN Secretary General Kofi Annan because it was felt that it was "senseless" to count on the littoral states to find a resolution to the dispute by themselves.<sup>30</sup> Annan was reported to have responded "with understanding" to the Turkmen request; this was put down to an earlier Iranian protest to the UN over Azerbaijan's first shipment of 'early oil' from the Chirag field on 7 November. Nevertheless, it was reported by Azerbaijan's *Turan* news agency on 9 December that the Azerbaijani and Turkmen presidents had met in Tehran the previous day, and had an "exceptionally constructive" discussion concerning the dispute. The two heads of state apparently agreed to hold a first round of negotiations on the delimitation of the "median line of the Caspian."

### Implications for the Future

It would be easy to view the Azerbaijan-Turkmenistan dispute over the Azeri, Chirag and Kyapaz fields as being distinct from the wider

dispute over the future delimitation of the Caspian. However, the course of the diplomatic wrangling, and Russia's eventual backing for Turkmenistan have potentially very significant consequences for the wider situation.

Turkmenistan's vehement insistence on the recognition of its sovereignty in 'its sector' of the Caspian clearly contradict Turkmenistan's earlier support for Russia's proposal of condominium in the Caspian. This in itself might be significant for future negotiations over the eventual delimitation (or otherwise) of the disputed sea. However, the dispute takes on much greater importance if it is assumed that it acted as a catalyst for a Russian decision to abandon its proposal for 45nm national zones and a central condominium.

With the apparent abandonment of the Russian proposal, there is now no concrete proposal that is supported by more than one state. Azerbaijan's persistent attempts to develop Caspian hydrocarbons unilaterally now seem to be driving the other littoral states to make unilateral moves of their own, in an effort to prevent the prejudicing of their own case in the future. With each unilateral action, the littoral states make it less and less likely that they will be able to conclude any sort of agreement *not* based on delimitation of the Caspian into national sectors of some kind. They also make future cooperation on other issues, such as sea-level change, pollution or the threatened extermination of the Caspian Beluga Sturgeon much less likely, as the diplomatic atmosphere becomes more and more confrontational.

It is difficult to condemn any of the littoral states for seeking to reap the potentially vast benefits of the Caspian's hydrocarbons; they all desperately need the income and wider political options those resources represent. However, it should be borne in mind that the unique situation in the Caspian demands a unique response from those involved, and the current confrontational diplomatic environment is just as likely to prevent stable, long-term development for the littoral states as allow it.

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**Notes**

- <sup>1</sup> This is a sketch map by the author based on a map kindly provided by John Roberts, obtained during an interview with Turkmenistan's Deputy Foreign Minister Yolbars Kepbanov. The author had been able to see the map, but not take a copy!
- <sup>2</sup> Interfax news agency, Moscow, 26/1/97, as published in the US Foreign Broadcast Information Service (FBIS) summary FBIS-SOV-97-017. Hereafter these reports will be referenced by the initial reporting agency, and the FBIS number.
- <sup>3</sup> Interfax news agency, Moscow, 28/1/97 (FBIS-SOV-97-019).
- <sup>4</sup> *Ibid.*
- <sup>5</sup> Interfax news agency, Moscow, 29/1/97 (FBIS-SOV-97-019).
- <sup>6</sup> Interfax news agency, Moscow, 31/1/97 (FBIS-SOV-97-025).
- <sup>7</sup> Interfax news agency, Moscow, 16/2/97 (FBIS-SOV-97-032).
- <sup>8</sup> Interfax news agency, Moscow, 11/3/97 (FBIS-SOV-97-070).
- <sup>9</sup> Itar-Tass news agency, Moscow, 5/7/97 (FBIS-SOV-97-186).
- <sup>10</sup> Itar-Tass news agency, Moscow, 7/7/97 (FBIS-SOV-97-188).
- <sup>11</sup> Interfax news agency, Moscow, 8/7/97 (FBIS-SOV-97-189).
- <sup>12</sup> *Ibid.*
- <sup>13</sup> 'Azadlyg', Baku, 10/7/97 (FBIS-SOV-97-192).
- <sup>14</sup> Interfax news agency, Moscow, 24/7/97 (FBIS-SOV-97-205).
- <sup>15</sup> *Ibid.*
- <sup>16</sup> Itar-Tass news agency, Moscow, 27/7/97 (FBIS-SOV-97-208).
- <sup>17</sup> Interfax news agency, Moscow, 28/7/97 (FBIS-SOV-97-209).
- <sup>18</sup> Turan news agency, Baku, 28/7/97 (FBIS-SOV-97-211).
- <sup>19</sup> 'Bakinskiy Rabochiy', Baku, 26/7/97 (FBIS-SOV-97-209).
- <sup>20</sup> Interfax news agency, Moscow, 31/7/97 (FBIS-SOV-97-212).
- <sup>21</sup> Itar-Tass news agency, Moscow, 2/8/97 (FBIS-SOV-97-214).
- <sup>22</sup> *Ibid.*
- <sup>23</sup> 'Komsomolskaya Pravda', Moscow, 2/8/97 (FBIS-SOV-97-217).
- <sup>24</sup> Interfax news agency, Moscow, 7/8/97 (FBIS-SOV-97-219).
- <sup>25</sup> Interfax news agency, Moscow, 18/8/97 (FBIS-SOV-97-230).
- <sup>26</sup> Itar-Tass news agency, Moscow, 19/8/97 (FBIS-SOV-97-231).
- <sup>27</sup> Interfax news agency, Moscow, 2/9/97 (FBIS-SOV-97-245).
- <sup>28</sup> Interfax news agency, Moscow, 4/9/97 (FBIS-SOV-97-248).

<sup>29</sup> Interfax news agency, Moscow, 17/10/97 (FBIS-SOV-97-290).

<sup>30</sup> Interfax news agency, Moscow, 19/11/97 (FBIS-SOV-97-323).

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