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Statement

at the Round Table Meeting
on *Caspian Oil and Gaz Scenarios*

(Florence, 14 April 2003)

Mr. Chairman,

Dear participants in the round table Meeting,

First of all, I would like to thank the sponsors of our Meeting - the International Energy Agency, the European University Institute and Robert Schumann Center of Advanced Studies - for the invitation to take part in, and address this Meeting.

For Russia, the development of relations with the International Energy Agency is among the priorities of our energy diplomacy.

I would like to emphasize that we proceed from the need to maintain global oil prices within reasonable ranges and to search for mutually acceptable compromises between exporters and importers of oil. In this respect, we rely on constructive interaction with the IEA which, as is known, protects the interests of industrialized countries - net importers of energy resources. We are pleased to note that some practical experience has already been gained in the field of mutual relations between Russia and the IEA. Our interaction is based on the Declaration signed in 1994, as well as on working papers specifying dimensions and areas of our cooperation. The IEA presented its analytical report on Russia's

energy sector this spring in Moscow. It contains an objective analysis of Russia's energy policy at the current - market - stage of the country's fuel and energy sector development. It is also important that leading Russian experts took part in the preparation of that report.

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The mere fact that the sponsors have chosen the Caspian issue as the theme of our round table Meeting is an evidence of the important role of the Caspian region in global geopolitics and the energy sector.

Let me summarize the principal aspects of Russia's Caspian policy.

After the disintegration of the USSR and the emergence of five Caspian littoral States in place of the former two, the region became a sensitive junction of global politics. In early 90s the Caspian region was called "another Gulf", for its hydrocarbon deposits. The United States have declared it a zone of its vital interests. Turkey, the EU countries, China, Japan and other States began to demonstrate increased attention to the Caspian region.

All this could not but affect Russian interests. Some Western analysts began even to discuss the thesis of "pushing Russia out of the region". Therefore, we had to find an adequate response to those developments.

In April 2000, the Security Council of the Russian Federation held a special meeting on the Caspian region under the chairmanship of President Putin. The meeting adopted a comprehensive decision that defined principal lines of our policy in the Caspian region.

The main point of the decisions taken by the Security Council is that the Caspian region is very important for Russia in all respects, including national security. The scale of Russian interests in that region requires Russia's multifaceted and growing presence there. Those interests should be promoted more actively and vigorously, while any attempts infringing upon them should

be rebuffed, which can by no means be construed as our desire to isolate the Caspian region from the rest of the world.

The importance of the Caspian region for Russia is determined by a combination of geopolitical and economic factors.

- The durability of our positions in the region determines to a significant extent the ability of Russia to oppose forces of international terrorism, as well as its foreign policy possibilities in the South Asia, Middle and Near East directions. In the light of the antiterrorist operation in Afghanistan the geopolitical importance of the Caspian region has increased even more.

- Peace at our borders and the situation in the adjacent Russian regions depends on the developments in the Caspian region.

- Three of four foreign Caspian States are members of the CIS which is one of the main priorities of the Russian policy.

- Millions of Russian compatriots live in the foreign Caspian States.

- And finally - the energy sector. Unfortunately, the Caspian Sea is not the Gulf, but in terms of its resources it may be well compared to the North Sea. According to different estimates (the Caspian subsoil is not sufficiently explored), these resources amount to 10-18 billion tons of fuel equivalent. The proven reserves are within 1-4 billion tons. All these are serious figures that we cannot ignore. Russia can and must gain a sound benefit from participation in the development of the Caspian hydrocarbon resources, their consumption for domestic needs and transportation to foreign markets.

The tasks set up by the Security Council cover a wide range of issues, including:

- strengthening co-operation with Caspian States;

- our energy strategy (support to Russian companies working in the Caspian region; measures to ensure transportation of the Caspian hydrocarbons to foreign markets by pipelines laid across the territory of Russia);
- establishment of the North-South transport corridor crossing the Caspian region;
- and, of course, settlement of the Caspian legal status problem together with the issues relating to environmental protection, preservation and management of biological resources.

As it was noted by I. Ivanov, Minister of Foreign Affairs of the Russian Federation, “for Russia as a Caspian State, the Caspian region is one of the foreign policy priorities. We believe that our task is to promote security and stability in the region, strengthen good-neighbourly relations with each littoral State, develop co-operation within the framework of the “Caspian Five”, establish constructive interaction with non-regional partners...”

The Caspian policy of Russia is implemented at different levels. Russian President Putin acts most actively in this regard. It is illustrative that the bilateral political statements with Kazakhstan, Azerbaijan and Iran concerning specifically the Caspian region, as well as agreements with Kazakhstan and Azerbaijan on the delimitation of the adjacent Caspian seabed sectors have been signed at the presidential level.

Points of contact with the US became visible - during the meetings of presidents of the two countries in Ljubljana, Moscow (May 2002) and near Saint-Petersburg (November 2002) the Caspian region was mentioned as a region of the American-Russian interaction. In the joint statement on energy dialogue the parties favored the promotion of mutually beneficial commercial co-operation in the area of exploitation and transportation of the Caspian hydrocarbons. Americans support our efforts to delimit the Caspian seabed resources.

The above does not mean that everything is going on smoothly with the US and we do not have any differences. In particular, we cannot agree with the thesis on “the harmfulness of the Russian pipeline monopoly in the Caspian region”: it seems to us politically loaded beyond reasonable extent.

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The summit of the Heads of the five Caspian States held last April in Ashghabad - the first-ever meeting in the region’s history—has been the key political event in the Caspian region.

We have supported the initiative to convene the Caspian summit and have taken part in its preparatory work on the understanding that our common priority has been to make the summit happen, despite the different views on a future status of the Caspian Sea, tensions and disagreements between some of the Five States, and the silent resistance on the part of the obstructionist forces.

In fact, this goal has been achieved. As a result, the first step has been made towards devising a new regional cooperation tool, the “Caspian Group of Five.” The summit revealed common or similar positions of the parties on a wide range of global and regional issues. In contrast, serious disagreements remain over the issue of a new legal status of the Caspian Sea. The presidents agreed to meet on a regular basis and to advance negotiations in all areas of regional cooperation.

Caspian problems are debated mainly within the Special Working Group that meets at the level of Deputy Ministers of Foreign Affairs of littoral States.

I would like to remind that the Group was set up in 1996 by a decision of Ministers of Foreign Affairs of the Five in order to draft a convention on the legal status of the Caspian Sea. By the end of 1998, the Group has held only two meetings. Joint efforts, actively supported by Russia, made it possible to revive the Group. Since February 2001 it conducted six meetings, including an extraordinary one.

In late February 2003, the eighth regular meeting of the Special Working Group (SWG) was convened in Baku, to start the clause-by-clause discussion of a consolidated draft convention on the legal status of the Caspian Sea prepared by the host Government on the basis of the State parties' proposals. The work done at the meeting produced some results. The preamble and most principles of the Caspian Sea management were agreed upon in broad terms. However, the discussion revealed once again the parties' different positions on a number of key issues concerning status.

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The Russian position on the status of the Caspian may be summarized as follows.

First of all, we consider the Caspian Sea to be a unique enclosed intercontinental body of water, which is supposed to have a special legal status and is not subject to any norms or definitions of the international law of the sea, the 1982 UN Convention on the Law of the Sea in particular.

Secondly, pending the adoption of a new legal status for the Caspian Sea, we proceed from the assumption that the Treaty between the RSFSR and Persia of 26 February 1921 and the Treaty between the USSR and Iran on Trade and Navigation of 25 March 1940 must remain in effect as the international documents governing the Sea's legal regime. Both of them are based on a "common waters" approach, meaning specifically the freedom of navigation and fishing (except for the 10-mile coastal zone) for the Caspian littoral States and the ban on the navigation under the non-Caspian States' flags.

Thirdly, we are firmly opposed to dividing the Caspian Sea into national sectors, as this would entail a fundamental revision of the decades-long regime of management of this body of water, which has been considered rather efficient, and would cause a host of new problems.

Fourthly, we suggest that a new legal status of the Caspian Sea be based on a "common water and divided sea floor for subsoil management purposes"

approach. This would imply dividing the Caspian seabed among the contiguous and opposite littoral States along the modified median line or any other mutually acceptable line, so that they could enjoy their sovereign rights to subsoil management while continuing to use the waters on a common basis, ensuring the freedom of navigation, and adhering to the agreed standards of fishing and environmental protection.

Fifthly, taking into account the opinions of our partners in the Five, we are ready to agree to expand national jurisdiction of Caspian States in the territorial sea. As it is known, today it is limited by a 10-mile fishing zone. At the Ashghabad summit Russia proposed to examine the possibility of establishing national jurisdiction within 15-mile-wide zones in which Caspian States would exercise border, sanitary and other controls and have exclusive fishing rights.

Sixthly, due to the persistence of serious differences in positions of littoral States concerning a new status of the Caspian Sea and in the context of the agreement that such status can be adopted only by consensus, the Russian side proposes to advance to a consensus settlement of the Caspian Sea status problem on a step-by-step basis and to begin with resolving most sensitive issues, such as fishing, environment protection and delimitation of the seabed for the purposes of exploitation of its subsoil.

We propose to create a Caspian Court of Arbitration consisting of competent independent lawyers from littoral States as a mechanism for settling disputes between these States over the Caspian Sea.

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Proceeding from the “step-by-step” principle, Russia favors further development of Caspian cooperation agreements in particular areas together with the work on the Status Convention. These agreements should be prepared in parallel and each of them should enter into force as it is finalized irrespective

of the progress of negotiations on other documents. “Conditionalities” put forward by certain countries seem to be counter-productive. If it is impossible to reach pentilateral agreements we consider it lawful to conclude them in a narrower format with those countries that are willing to do this.

Legal vacuum in the area of exploitation of Caspian subsoil creates a number of serious political and economic problems. Disputes between Caspian States on certain oil and gas fields cause frictions and tensions and are fraught with conflicts. Some disputable fields are not developed, which inflicts economic damage to littoral States. Long-standing negotiations on this issue in the multilateral format did not produce any results. Under the circumstances the neighboring littoral States resolve the problem on a bilateral basis.

There was a real breakthrough here in 2002. After the signing of the Russian-Kazakhstanian Protocol determining the line delimitating the zones of subsoil exploitation of the two countries in the northern part of the Caspian Sea in Moscow in May the Russian Federation and the Republic of Azerbaijan concluded the Agreement Delimitating Certain Sectors of the Caspian Seabed 23 September in Moscow. Let me note that both documents were signed at the summit level. If one takes into account that a similar agreement was signed between Kazakhstan and Azerbaijan in November 2001, he can draw a conclusion that the interaction of the above-mentioned countries in the area of the development of seabed mineral resources in the northern part of the Caspian Sea finds a sound international legal framework.

The agreement on a delimitating line with Kazakhstan allowed to settle the matters of dispute concerning two key formations and one field located at the joint of the two subsoil exploitation zones. The Khvalynskoye field and the Tsentralnaya formation have been referred to the jurisdiction of Russia and the Kurmangazy (Kulalinskaya) formation – to that of Kazakhstan. It has been decided to develop hydrocarbon resources co-jointly.

Under the Agreement with Azerbaijan the delimitation has also been done on the basis of the modified-median-line principle. However, the development of mineral resources of the structures crossed by this line will not be implemented on a 50:50 basis but according to the international practice of exploitation of transborder deposits.

The bilateral agreements on mineral resource exploitation are criticized by some of our partners. With all due respect for their position, we cannot agree with it. I would like to emphasize that the above-mentioned agreements regulate matters of cooperation in the area to which the Soviet-Iranian Treaties of 1921 and 1940 are not applicable. As is known, these Treaties do not cover the issue of mineral resource exploitation. Moreover, they do not relate to the Caspian Sea altogether but only to its sections adjacent to the coastline of the Contracting Parties. Naturally, the Agreements binding for its Parties do not create legal consequences for other Caspian states. At the same time, they may serve as a good example to be followed. It is desirable that the experience gained in the Northern and Central parts of the Caspian Sea be used in its Southern part. This would allow to settle the problem of developing seabed mineral resources of the Caspian Sea as a whole.

We do not, however, wish to impose our experience on anybody. Our neighbors in the Southern Caspian basin are in their own right to make a different decision in their own way. Russia has no claims to any deposits located there, and will agree with the arrangements to be reached by Iran, Azerbaijan and Turkmenistan. Russia welcomes the Iran-Azerbaijan and Iran-Turkmenistan dialogues on the Caspian problems, and supports the resumption of such dialogues between Turkmenistan and Azerbaijan, and Turkmenistan and Kazakhstan.

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The condition of the Caspian environment is a matter of grave concern, while the situation of the Caspian sturgeon is next to critical. Hence the intensive Russia's efforts to reach agreements on bioresources and environmental protection, which would allow to form an international legal basis for urgent measures to be taken by the littoral states to remedy and improve the state of affairs.

Russia also proposes to establish a permanent pentilateral intergovernmental Caspian ecological center which would monitor the Caspian environment. Kazakhstan and Azerbaijan support this initiative.

We insist on tightening ecological security measures to accompany economic activities in the Caspian basin, in particular, on introducing "zero = dumping"-at-sea technology during well-drilling.

Despite serious difficulties, a certain progress has been made at the negotiations on sector agreements.

The agreement on the conservation and management of biological resources of the Caspian Sea is being finalized. The draft has been harmonized to a large extent.

At the session of the Coordination Committee on Hydrometeorology and Monitoring of the Caspian Sea Pollution (CASPCOM) held at Alma-Ata in September 2002, the representatives of Russia, Iran and Kazakhstan approved the draft Agreement on the Caspian states cooperation in hydrometeorology and monitoring of the Caspian environment. We expect that Azerbaijan will soon support the Agreement.

The experts of four Caspian states (representatives of Turkmenistan did not attend) agreed upon a draft Framework Convention on the Protection of Marine Environment of the Caspian Sea. Unfortunately, the plenipotentiary meeting of the parties, planned to be held in Teheran in January 2003 to finalize and sign the document, was postponed to a later date due to a separate position

of some of our partners. Nevertheless, we absolutely expect the Framework Convention to be signed.

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Let me now say a few words about pipelines. For historical reasons, the Russian pipelines are an integral part of the pipeline infrastructure of the Caspian region. We intend to develop further the cooperation with the coastal countries in transporting oil and gas of the Caspian Sea to the world markets via the territory of Russia.

The Russia-Kazakhstan cooperation has benefited from the commissioning of the Tengiz-Novorossiysk oil pipeline of the Caspian Pipeline Consortium and from the signing of a long-term bilateral agreement on oil transit. Measures have been taken to increase the through-put capacity of the Atyrau-Samara oil pipeline. That route has become more attractive with the completion of the Baltic pipeline system which was put into operation late last year.

Of continuing relevance is the issue of broadening the Russia-Azerbaijan cooperation in transporting oil from Baku to Novorossiysk.

New channels of supply of Caspian oil to Western markets are opening up due to the signing of the agreement on the integration of the "Druzhba" and "Adria" systems. We attach great importance to the implementation of the Burgas-Alexandroupolis oil pipeline project.

It is worth a special notice that, as in the case of the Baltic pipeline system, the "Druzhba", "Adria" and Burgas-Alexandroupolis pipelines will make it possible to transport oil bypassing the Black Sea straits.

The Russian position with regard to the construction of new pipelines was clearly outlined by President Putin at the Ashkhabad summit: "We have no allergy to the concept of multiple energy supply routes provided that the routing of new pipelines is not influenced by political considerations and that the routes

chosen are justified from both the economic and environmental points of view". This position of ours is also fully applicable to the Baku-Tbilisi-Ceyhan oil pipeline project.

I would like to note that for the hydrocarbon resources of the Caspian Sea there is also a promising eastern vector, in addition to the northern and western ones. According to some reliable forecasts, China alone intends to import 90 to 100 million tons of oil per year by 2010 and 200 million tons per year by 2020.

I should also mention the southern direction - Iranian - which could have already proved by today its high competitiveness but for the well known political factors.

As regards strengthening and developing energy cooperation in the region, there is a promising idea of creating within the CIS a national gas alliance with the leading role to be played by the Caspian regional states. The Joint statement by the presidents of Russia, Kazakhstan, Turkmenistan and Uzbekistan on the development of a long-term strategic cooperation in the areas of production and transportation of natural gas adopted in Alma-Ata on 1 March 2002 became an important step in that direction.

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The rendezvous and voyage of the Caspian fleet in August 2002 became Russia's major military and political event on the Caspian Sea. The participants included a combat vessel of the Azerbaijan Navy, an air-force unit from Kazakhstan and military observers from the said countries and Iran. The maneuvers were attended by the Defense Minister of Kazakhstan. They showed that training in combating terrorism and drug-trafficking and in addressing other challenges of our time as its tasks were defined before the rendezvous and voyage, served the interests of all Caspian states. They also showed that it was

not a proper time to raise the issue of demilitarization of the Caspian Sea as the terrorist threat to the region persisted.

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No important international problem should be discussed today without taking into consideration the developments in Iraq. Russia's stand on Iraq was clearly and plainly expressed in the statement made on last March 20 by President Vladimir V. Putin who called the military action against that country "a big political mistake". The developments in Iraq directly affect the oil market. Many a forecast is currently made as to the consequences of the war for the oil sector and for the world economy as a whole. The emphases are placed very differently, and yet negative expectations prevail.

Stability and predictability are fundamental for sound development. It is known that Iraq accounts for 3 per cent of the world market today. The Persian Gulf continues to play an important role, though its share has fallen from 40 to 30 per cent over recent years. The developments in Iraq together with the plans for a so-called "democratization" of the Islamic world in the future suggest nothing but instability. As a result, the attractiveness of such regions as the Caspian Sea, Central Asia and Africa is growing. The increased attention to Russia in this context cannot but cause my concern.

Meanwhile, all this is no solution to the problem. Take the Caspian Sea, for example. Without underestimating its reserves, I would not like to overstate them. There is enough Caspian oil to ensure sustainable development of the Caspian states and support the Russia's resource base. But, as mentioned already, the Caspian Sea is not the Persian Gulf. It would be wrong to view it as an alternative source of energy in itself.

We have to return to reliability and stability. To achieve that it is necessary to provide for an early return of Iraq into the mainstream of a political

settlement on the firm basis of the UN Charter and international law. The key role in this respect must be played by the UN Security Council.

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In short, these are the main lines of Russian policy in the Caspian region. Let me conclude my address with President Putin's remarks made at the Ashkhabad Caspian Summit: "As for Russia, we are fully aware of our share of responsibility for the situation in the Caspian region. And we will spare no effort to strengthen cooperation in the region and to deal with its problems as soon as possible".

Thank you for your attention.

Выпускающие:

(С. Вангель)

(К. Сперанский)