



the Hollings Center  
*for international dialogue*

## **DIALOGUE ON THE FUTURE OF THE CASPIAN SEA**

### **CONFERENCE REPORT**

Organized by the Processes of International Negotiation (PIN) Program  
of the International Institute of Applied Systems Analysis (IIASA)  
and the Hollings Center for International Dialogue

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## **EXECUTIVE SUMMARY**

The Caspian Sea is the world's largest inland body of water and a major source of oil and gas. It is also a potential site of conflict due to the growing competition for its resources and because its international legal status and maritime boundaries remain undefined.

From May 13 to 15, 2006, the Processes of International Negotiation (PIN) Program of the International Institute of Applied Systems Analysis (IIASA) and the Hollings Center convened at the Imperial Mint of Topkapi Palace in Istanbul a conference for representatives of the Caspian littoral states. Legal experts, scientists, and Caspian specialists from Canada, Europe, Turkey, and the United States also took part as discussion facilitators and as technical resource-people. The purpose of the conference was twofold: to provide a forum for the Caspian states to talk informally about issues of common interest that they rarely discuss due to preoccupation with the contentious issues of maritime boundaries and security, and, to prepare the terrain for productive future discussion on these issues.

Presentations analyzed the development of sea/lake regimes around the world and explored recent international work on water and air pollution, fisheries, energy, environmental protection and maritime accidents relevant to the Caspian region. Discussions both revealed many areas ripe for cooperation and underscored the ongoing challenges to the development of a genuine pan-Caspian regime. Social activities such as group dinners fostered a collegial atmosphere that facilitated open communications. Participants proposed to reconvene in 2007 to continue the discussion and to open a conversation on legal regime and boundaries.

## INTRODUCTION

The Caspian Sea, bordered by Azerbaijan, Iran, Kazakhstan, Russia, and Turkmenistan, is the world's largest inland body of water. (See Appendix 1 for maps). The Caspian is an important source of oil and gas, probably the third-largest in the world after the Middle East and Russia. Oil reserves are estimated to be comparable to those of Qatar and natural gas reserves are believed to approximate those of Saudi Arabia. The Sea is home to a sturgeon population that produces 90 percent of the world's caviar supply, although the sturgeon population is diminishing. The Caspian is called a sea, but the actual legal status of the body of water—whether it is classified as a sea or as a lake—is undetermined and its maritime boundaries have never been defined. Peace has prevailed in the region to date, but this legal ambiguous situation, combined with the Caspian's strategic geopolitical location and the growing demand for its resources, make it ripe for conflict.

Russia historically has been the dominant power in the Caspian region. The U.S.S.R. and Iran negotiated two treaties, in 1921 and 1940, that designated the Caspian an exclusively Soviet and Iranian sea. The agreements granted each nation free and equal navigation rights past a fishing zone ten miles off-shore, set administrative boundaries in the waters and sought to exclude foreign nationals from the Caspian. The dissolution of the U.S.S.R. in 1991 brought the legitimacy of these treaties into question, although Russia and Iran argued that they remained valid. The newly-independent states of Azerbaijan, Kazakhstan, and Turkmenistan generally recognized the earlier administrative boundaries. But they were eager to exploit the Caspian's oil and gas resources, and for this purpose set *de facto* boundaries for exploration and extraction and invited foreign companies into the area.

In 1992, officials from the five littoral states met in Iran to open negotiations for a multilateral agreement on legal status and boundaries. Yet, after several years of protracted discussions little progress has been achieved, and the Caspian remains in dispute. Iran and Russia take the position that the Caspian should be defined as a lake, on the basis that a sea status would allow foreign access through the principle of sea access for landlocked states, while the other littoral states prefer its designation as a sea. In the meantime, Russia, Kazakhstan, and Azerbaijan have concluded bilateral agreements demarcating their respective sectors of the Sea. The United States has proposed the creation of a trans-Caspian gas pipeline, but Russia and Iran oppose the plan, and such a pipeline is unlikely to be built until a pan-Caspian legal regime is negotiated. Conflict in the region has been avoided, but occasional incidents suggest the potential for a significant international conflagration. In a 2001 incident that, fortunately, was defused before it escalated dangerously, an Iranian warship ordered an Azeri exploration vessel carrying British Petroleum (BP) experts to retreat five miles north, asserting that the vessel had entered Iranian waters. BP subsequently suspended explorations in the area.

The idea of a Caspian dialogue originated during the PIN Program's 2003 visit to Iran, when PIN members conducted a seminar analyzing the history of Caspian boundary negotiations for the Iranian Foreign Ministry's School of International Relations. In reflecting upon the seminar, PIN was struck by the extent to which the unresolved issues of boundaries and security had prevented serious discussion among Iran and other littoral states on such issues of joint concern as pollution and maritime safety. PIN perceived that organizing a dialogue to open

communications over common issues could be useful to advance those issues, as well as to prepare the terrain for constructive discussions on contentious border and legal regime matters.

Twenty-three participants, including governmental and nongovernmental representatives from each of the littoral states (except Turkmenistan, which declined to attend), along with scientists and experts in conflict resolution, maritime issues, international law and Caspian affairs from Europe, Canada, Turkey, and the United States, took part in the May 13-15, 2006, conference. The conference, which was held at the Imperial Mint at Topkapi Palace in Istanbul. This report summarizes the proceedings on a not-for-attribution basis. Presentations and background papers are available upon request.

## **SUMMARY OF PROCEEDINGS**

During the opening session, representatives of the four littoral states presented their countries' official positions on Caspian issues. This helped to clear the table of contentious matters at the outset. Next, a PIN Program member summarized key characteristics of sea-lake regimes around the world, and the executive manager of the Black Sea Economic Cooperation organization (BSEC) gave an in-depth description of the origins and current role of this nearby sea-lake regime. Later sessions tackled issues of common interest such as the environment, fisheries and energy. The director of the United Nations Development Programme's (UNDP) Caspian Environmental Project described the 2003 Tehran Convention on the Environment, the first pan-Caspian agreement to be signed by all five littoral countries. IIASA scientists presented recent developments in water and air pollution, fisheries and energy management relevant to the Caspian region. A specialist from the International Centre for Emergency Management Studies gave a presentation on cooperative approaches to preventing and responding to maritime accidents.

In the final session, participants emphasized the need for further information-sharing and cooperation. Caspian representatives proposed joint research projects on the subjects discussed. Social sessions throughout the conference—a dinner cruise on the Bosphorus, lunches at the conference site and group dinners—loosened the atmosphere and contributed to a relaxed exchange of views.

### **Opportunities**

The most significant opportunity for cooperation is the desire for peace and stability in the Caspian region that was strongly expressed by all representatives of the littoral states. This desire creates an opening for dialogue on contentious and more unifying issues. The Caspian's hydrocarbon and bio-resources, as well as its geo-strategic location as a natural corridor for transport between Europe and Southeast Asia, also represent opportunities. The region's improving economic situation, with indicators such as gross national income rising annually, is an additional positive sign for the basin region.

## Challenges

Participants pointed to significant environmental, economic, and political challenges facing the region.

The decline in fisheries is the Sea's most urgent environmental problem. Illegal fishing by organized criminal groups is the main reason for the sharp decline in sturgeon and other native species. The introduction into Caspian waters of invasive species such as *Mnemiopsis leidyi*, a type of jellyfish that disrupts the food chain, presents a further threat to the fish population. Although pollution in the Sea-Lake basin and the surrounding areas is not yet urgent, the presence of algal blooms in the water suggest that nonpoint source pollutants (i.e., pollutants originating outside Caspian waters) may soon become a problem. The aging transport fleet in use on the Caspian, coastal development carried out without clear planning, and global warming put the environment at risk, as well.

As for economic challenges, even with economic growth the region still has a low total gross domestic product and the economies of the littoral states are all in transition. High oil prices have stimulated these economies, but oil also has distorted economic growth and has encouraged littoral states to adopt foreign policies largely based on the exploitation of hydrocarbons rather than on regional cooperation. Some participants asserted that Russia's new energy strategy has particularly negative implications for the Caspian region. The role of the private sector and national oil industries in the region generally has been limited to hydrocarbon extraction.

Political challenges are the most daunting. Participants agreed that the lack of a legal regime specifying rights and obligations regarding natural resources is a hindrance to negotiations on other issues. Principles for political and military cooperation among littoral states and the status of external states with interests in the basin have yet to be established. Participants set aside the unsettled question of whether the Caspian should be considered a sea or a lake, deeming it unproductive for the purposes of this conference. Instead, they focused on issues relevant to development of a new regime. Participants acknowledged that the significance of the Caspian varies among the littoral states, which influences each state's perception of the urgency of a legal regime. (For example, the Caspian's oil and gas resources are relatively less important to Russia and Iran than they are to the other littoral states, since these two nations have much larger reserves elsewhere. They view the Caspian primarily in geo-strategic terms).

Conflicts within the region and in neighboring regions, such as conflict in the Caucasus and the crisis over Iran's nuclear program, make it difficult for littoral states to focus on challenges to the Caspian. A lack of trust among the littoral states is evident. Any pan-Caspian legal regime will need to address Russia's historic role in the region and its asymmetric power over the newly-independent states of Azerbaijan, Kazakhstan, and Turkmenistan and to determine how to adapt the pre-existing Soviet-Iranian agreements to include these new states. Russia has been slow to enter into negotiations on these issues. However, the growing demand for Caspian oil may put pressure on Russia to enter into negotiations. In addition, the European Union, the United States, NATO, and China are expanding their presence in the region and thus their inclusion in or exclusion from any potential regime must be taken into consideration.

## **Lessons from Cooperative Experiences**

The successful negotiation of the Tehran Convention on the Environment confirmed that cooperation does not need to wait for the development of a pan-Caspian legal regime. Key features of the negotiation—the identification of common objectives, the principle of collective decision-making, and the creation of agreements with collective responsibilities and benefits—offer positive lessons for cooperation in other areas.

Attempts to negotiate an agreement on search and rescue in the Caspian revealed how little emergency management professionals in the littoral states know about one another. Prior to such an agreement, nonofficial dialogues and “Track II” diplomacy can help such professionals share information and coordinate on issues of obvious common concern such as oil spills, smuggling, and illegal fishing.

The experience of creating sea/lake regimes in other regions may be relevant for the Caspian, especially in identifying how dialogue was initiated, which issues are most susceptible to multilateral cooperation, and whether a step-by-step approach or a comprehensive approach is most appropriate. BSEC was cited as a particularly salient example. BSEC has developed a legal regime to promote peace, security, cooperation, and sustainable development and includes 11 littoral and non-littoral member states. The regime focuses on clusters of common interest, such as nuclear safety and maritime security. BSEC has taken concrete steps on the environment and is notable for supporting economic development through a business council and an aid bank that are part of its parliamentary assembly and international secretariat.

## **Questions for Further Research**

Participants identified five key areas for further research and data collection:

- *Fisheries*  
Research on fish populations in the Caspian and on scenarios to stimulate fish reproduction is vital. Regulation of the fishing industry to allow for the recovery of fisheries would help Caspian nations cooperate on policies to combat organized crime and the division of income from fisheries.
- *Watershed level data*  
Little environmental data at the watershed level (the geographic area that drains water into the Caspian) is available. For example, the extent to which dams on the rivers that flow into the Caspian affect fish reproduction is not known.
- *Caspian culture*  
Participants suggested research on the extent to which a genuine “Caspian culture” exists: do people living in the area identify with the region as a whole, in addition to identifying with their own countries? Research should explore how to development and strengthen such a culture. Regional environmental and maritime nongovernmental organizations may be useful catalysts for cultural dialogue.

- *Basin economy*  
Whether or not a basin economy exists was identified as an area for further exploration, with research into the characteristics of the local agricultural economies being especially important. Variations in climate across the region have led to differences in land use patterns among littoral countries. Given the scale of malnutrition in the area, visioning exercises could be used to produce alternate scenarios for food security and future agricultural development.
- *Air pollution*  
Air pollution is a final area for increased attention. The extent to which it is a transboundary issue should be investigated.

## **PROPOSED STEPS FORWARD**

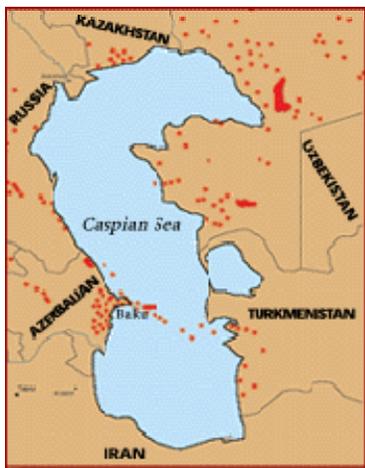
Participants agreed that negotiations on a multilateral regime were necessary and discussed ways to contribute to such a dialogue. Building on the areas identified for further research, participants agreed to prioritize the common problems facing the region. Research could look into why these problems have not been resolved, the positions of the littoral states toward them, and how to overcome them. Such research could attract the interest of “unofficials” such as representatives from nongovernmental organizations, academia and the media and create a forum for exchange of data and ideas. Research should generate win/win solutions for the littoral states by studying instances of cooperation and incipient regime development, the development of security arrangements and crisis responses on pressing topics such as endangered sturgeon and maritime accidents.

Such a dialogue would include participants from each of the littoral states and outside experts in the key issues identified. Ultimately, such intercommunity dialogue or other forms of “Track II” diplomacy could be useful to political leaders and thereby contribute to a long term solution. It could also help to establish a databank for the region, which could become the nucleus for a center for competence for the Caspian region.

Several options were proposed to move the dialogue forward. Some participants suggested holding a second dialogue in conjunction with the first Conference of the Parties (COP) to the Tehran Convention on the Environment, scheduled for 2007. However, such a venue may not be suitable because the COP will be an official forum focused on defining terms of reference for a specific convention, whereas the proposed dialogue is unofficial and would take a broader approach. A more feasible proposal was to hold a second session in Baku, Azerbaijan. Focused presentations could be given on energy, fisheries, air pollution, and water quality using data on the Caspian Sea region. These data would provide a clear factual basis for the development of scenarios and simulations for cooperation. Regional and international media could be involved in order to publicize the results among interested parties.

# APPENDIX

## Maps of the Caspian Sea



## **ABOUT THE INTERNATIONAL INSTITUTE OF APPLIED SYSTEMS ANALYSIS**

IIASA, based in Laxenburg, Austria, is an East-West research institute created during the first U.S.-U.S.S.R detente in the late 1970s to provide nonpartisan technical and scientific expertise relevant to policy-making and to international negotiations. IIASA's PIN Program publishes research and conducts seminars and trainings on negotiation and conflict resolution for governmental and non-governmental audiences around the world.

## **ABOUT THE HOLLINGS CENTER FOR INTERNATIONAL DIALOGUE**

The Hollings Center promotes dialogue between the United States and predominantly Muslim countries, opens channels of communication, deepens understanding, expands people-to-people contacts, and generates new thinking on important international issues. The Center was established as an NGO through legislation enacted in 2004 and 2005 by the U.S. Congress, particularly through the efforts of Senator Ernest F. Hollings (ret.); its official name is the International Center for Middle Eastern-Western Dialogue. The Center convenes conferences, typically in Istanbul, on a wide range of contemporary issues involving opinion leaders and experts in a variety of fields, and provides small grants and fellowships to selected program participants for collaborative projects that build on conference recommendations. For more information, please see [www.hollingscenter.org](http://www.hollingscenter.org).