

Russia, Kazakstan Near Caspian Accord

Delay in Signing Until July Raises Concern

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MOSCOW — Russia and Kazakstan moved closer to settling a long-running dispute over the division of the Caspian Sea, but delayed signing a formal accord that many see as vital for the exploitation of huge oil deposits in one of the world's most promising energy frontiers.

Russian President Boris Yeltsin and his Kazak counterpart Nursultan Nazarbayev had been scheduled to sign the agreement during a summit in Moscow Tuesday.

The deal, which calls for carving up the sea bed into national sectors and clarifies who owns what oil deposits, represents a major Russian policy shift. Moscow had fiercely opposed moves to demarcate the body of water, partly because the biggest oil fields lie near the shores of its neighbors.

Despite assurances from Mr. Yeltsin's office that the documents are ready, the unexplained decision Tuesday to put off the signing until July 1 has prompted concern that the Kremlin could be having second thoughts.

Lake or Sea?

Russia has steadily backed away from an initial position that the Caspian Sea should be considered a lake, meaning that its natural resources would be jointly shared by the five nations around it: Russia, Kazakstan, Turkmenistan, Azerbaijan and Iran. Instead, it has moved toward the idea that the world's largest inland body of water is indeed a sea, with each country controlling exclusive economic zones meeting at mutually agreed median lines in the Caspian.

In a joint statement Tuesday, the Russian and Kazak leaders called on the other littoral states to "multiply joint efforts to draft a convention on the legal status of the Caspian Sea as soon as possible."



That may be wishful thinking, however. Azerbaijan has publicly disagreed with a Russian demand for the sea itself to be demilitarized and jointly managed. Moscow wants this partly to protect the environment and the smuggler- and pollution-ravaged caviar industry. But the Azerbaijan government suspects Moscow also wants to strengthen its position against oil and gas pipelines along the Caspian Sea bed that will bypass Russian territory. Officially, Moscow's reason is that the sea bed is seismically active.

Still, Western oil companies and pipeline builders are cheering the Kremlin's softening line, saying an end to the wrangling and political uncertainty will boost investor confidence. Projects that could result in investments of more than \$60 billion have already been signed by more than 40 oil companies from 22 countries.

"I'm pretty encouraged by all this," says John H. Works, a Central Asian pipeline finance specialist with ABN Amro

Bank. "Russia doesn't have to do this if it doesn't want to. But it saw the handwriting on the wall that, by Iran or wherever, oil pipelines could bypass Russia, and that it may as well be a reasonable corporate citizen."

Possible Goodwill

Mr. Works says Russia may hope that goodwill from oil companies and neighboring states could encourage them to expand use of pipeline routes through Russian territory, in the short term at least. Russia has already offered to triple the capacity of the one working export pipeline from Azerbaijan, although it is not clear when that could be done or who would pay for it.

Other factors behind the Russian change of heart include a desire to attract tenders for offshore blocks in its sector of the Caspian Sea. Estimates of possible reserves for the largely unproven Caspian Sea basin range up to 200 billion barrels, including about 4.5 billion barrels in what would be Russian territory. Also, a cooperative Moscow would be helping Russian oil companies like AO Lukoil, which is active in three of Azerbaijan's nine offshore consortiums.

"The drawn-out uncertainty over the status of this body of water is holding up strategic investment plans," Russian Deputy Foreign Minister Boris Pastukhov said last month in Baku, Azerbaijan's capital, one of a series of Russian visits to the region to explain the government's new position.

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