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**ECO Collage of Insurance**

**Area Studies department**

**M.A. Degree Thesis**

**Challenges and Opportunities of the Islamic Republic  
of Iran in the Caspian Sea Region**

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*In The Name of God*

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## **Abstract**

The Caspian Sea contains great resources of oil and gas. The Caspian Sea is a 700-mile-long body of water in central Asia, land located between Azerbaijan, Iran, Kazakhstan, Russia and Turkmenistan. Iran was challenges and opportunities in the Caspian region. Key question in this thesis includes three section that first question, opportunities of Iran in the Caspian region, second question challenges of Iran in the Caspian region, third question is how to use these challenges and opportunities in the way of national interest. Hypotheses divided to three section, first section includes opportunities of Iran in the Caspian region (resources of oil and gas, strategic\_ geopolitical position of Iran and the historical\_ cultural similarities), second section includes challenges of Iran in the Caspian region (determination legal regime, environmental problems and influence of great powers), three section includes multilateral cooperation in the Caspian region that help to Iran in the way of national interest. In this research we don't consider the historical\_ cultural similarities of Iran with littoral states of the Caspian Sea and the influence of great powers.

Key word:

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## **CHAPTER 1: INTRODUCTION**



## **Introduction**

Iran, a littoral Country of the Caspian Sea, is beginning to take a more active role in both the transport of oil and the exploration of oil and gas in its sector of the Caspian.

Additionally, the Iranian National oil Company, NIOC, has a 10% stake in the Azerbaijan International oil Company and in international ventures in other sectors of the Caspian.

Iran is actively promoting and negotiating oil swap contracts that involve Chinese firms as both contractors and financiers. The Caspian Sea is a 700-mile –long body of water in central Asia, land located between Azerbaijan, Iran, Kazakhstan, Russia and Turkmenistan. While not a littoral state , near by Uzbekistan is included by some as in the Caspian sea region in view of its energy resources Of the six countries , only Iran is a member of the Organization of petroleum Exporting Countries (OPEC).

This dissertation has six chapter. Chapter 1 introduces the thesis proposal including description of problem, key questions, hypothesis, backgrounds and review of literature, research objectives, methodology and theoretical concepts. Chapter 2 includes oil and gas resources and strategic position of Iran in the Caspian Sea. In chapter 3 discusses about determination of legal regime of the Caspian Sea. Chapter 4 describes environmental problems in the Caspian Sea. Chapter 5 includes Iran's national interests and multilateral cooperation in the Caspian Sea. Chapter 6 includes conclusion.

## **D- Description of Problem**

The Caspian Sea is estimated to be the world's third largest reservoir of oil and natural gas after the Persian Gulf and Russia. But, since the disintegration of the USSR in 1991, its rich resources have generated disagreement among the littoral states (Russia, Iran, Azerbaijan, Kazakhstan and Turkmenistan) over ownership of its resources. In addition, the region's huge energy potential has sparked intense competition among both the producer and the consumer countries regarding the final export routes of its oil and natural gas.

The Caspian Sea has received considerable attention to in past years, both because of its potential as a source of oil and gas in the next century for world energy markets, and because of the environmental consequences of such development for this ecologically delicate water body. With the break up of the former Soviet Union, jurisdiction over the sea has become an important issue for all the littoral states. Control over offshore resources is one of the most important issues affecting relations between the states, and therefore the future development of both Central Asia and Transcaucasia. The present research intends to study on Iranian opportunities and challenges in Caspian Sea and meeting its own interests.

## **E- Key Question(s)**

1. What Are Opportunities of Iran in the Caspian Sea Region?
2. What Are Challenges of Iran in the Caspian Sea Region?
3. How Can Islamic Republic of Iran Use These Challenges and Opportunities in the Way of National Interest?

## **F-Hypotheses**

1. Opportunities of Iran in Caspian Sea Region include It's Vast Resources of Oil and Gas and Strategic Geopolitical Position.
2. Challenges of Iran in Caspian Sea Region include It's Determination of Legal Regime and Environmental Problems.
3. Iran Can Use These Challenges and Opportunities to Contain Multilateral Cooperation with Littoral States of Caspian Sea in Order Fulfill into National Interests.

## **Theoretical Concept**

### **Multilateralism**

The first documented use of term "multilateral" to describe an international arrangement dates back to 1858. The noun form of the word- "multilateralism"- on the other hand, only came into use in 1928, in the aftermath of the first World War. James Caporaso observes that the noun "comes in the form of an 'ism,' suggesting a belief or ideology rather than a straightforward state of affairs.<sup>1</sup>" A definition put forth in US foreign policy in 1945 supports this observation. Multilateralism was then defined as "international governance of the 'many' and its central principle was "opposition of bilateral and discriminatory arrangements that were believed to enhance the leverage of the powerful over the weak and to increase international conflict."<sup>2</sup>

Although much has changed since the end of the second World War, the most basic definition of multilateralism has not. In 1990, Robert Keohene defined multilateralism as "the practice of coordinating national policies in groups of three or more states"<sup>3</sup>. In a 1992 article, John Ruggie agreed that this was an accurate definition of

multilateralism, but called it “nominal” and criticized it for being incomplete. Ruggie observed that “what is distinctive about multilateralism is not merely that it coordinates national policies in group of three or more states, which is something that other organizational forms also do, but that it does so on the basis of certain principles of ordering relations among those states.” He thus formulated a substantive definition of multilateralism, which states that “multilateralism refers to coordinating relation among three or more states in accordance with certain principles,” which James Caporaso, publishing at the same time as Ruggie, more succinctly articulates.<sup>4</sup>

This inclusion of “principles” in the definitions offered by the US government in 1945, and by Ruggie and Caporaso more than fifty years later, suggests that the beliefs required for multilateral cooperation are as central to its function as are its more formal tenets. Caporaso’s definition also illustrates the aspect of multilateralism with which the current Bush administration currently struggles- the concept of “reciprocity” Developed and developing nations will have different roles to play in cooperative efforts, given their different needs and capabilities, and based upon these differences, the benefits of cooperation will seem more immediate to some actors than to others.<sup>5</sup>

### **Background(s)-(Review of Literature & Bibliography)**

Bernard A. Gelb in " Caspian Oil and Gas: Production and Prospects" has discussed: There is a prospect of exceeding large reserves of crude oil and natural gas in the Caspian Sea region, and a consequent large increase in the production of oil and gas from the area. Because diversity of energy sources is a consideration in congressional deliberation on energy policy, this prospect could play a role in policy discussion. However, there are notable obstacles to increase in Caspian Sea region production of oil and gas both now and in the future that may slow development.

Terry Rayno Twymon has discussed: The major factors that affect the potential impact of

the Caspian Sea region on world energy supply. The first factor is the amount of oil and gas that is currently estimated to exist in the region estimates that are based on relatively little exploration to date. It then describes major markets for the region's oil and gas, and the potential routes and the hurdles they face- for delivering Caspian production to those markets.

Shahram Torabi in "similarities and differences between the position of littoral states on the Caspian seas legal Regime" writes : the views of Russia Republic of Azerbaijan, and Kazakhstan that seemed to diverge on the legal regain of the Caspian sea, have converted. At present the stances of these countries do not differ considerably on this issue. The other four littoral states basically concur on the legal regime on the sea, except for the existing difference over the division of the sea, but this last issue is easily resolvable since both countries consider the law of the seas as the basic criterion of decision making.

Afshin daneh Kar in " The Caspian Seas Environment " writes: The absence of an adequate legal regime in confronting the Caspian sea with a host of environmental challenges, while the responsibilities of the littoral states remain unclear. No regional standards for environmental preservation in view of the scale of pollution generation had been devised. A number of countries have encouraged the activation of the Caspian Sea Environmental Protection Plan, yet the unclear status of the seas legal regime prevents the enactment of the CEP provisions.

#### **H-Research Objectives/Purposes**

Considering that the international relationship has started to become more complicated in the modern times, conflicts of states, each state tends to make decisions in its foreign affairs that can enable it to meet its interests in the international community. Iranian national interests evidently require a great deal of effort to meet and make the best use of opportunities to solve challenges that may encounter Iran.

## **5-Methodology**

**A-Methodology:** The present study is a descriptive- analytical research.

### **B- Data Gathering Sources**

Library research:

English books and articles,

Persian books and articles,

Data and Information from World Wide Websites.

### **C- Approach and Theoretical Issues**

By utilizing related researches and academic works. I will be able to discuss opportunities and challenges of Islamic Republic of Iran in the Caspian region.

### **D-Statistical Sampling: Sampling Method and Size of the Sample**

### **E- Methods of Data Analysis**

## **6-Key Terms**

Caspian Sea, Iran, Legal Regime, National Interest, Environmental Problems, Oil and Gas Resources, Strategic and Geopolitical Position.

## **7- Shortcomings and Obstacles of the Subject**

The major problem is lack of references. Although there are some articles about opportunities and challenges of Islamic Republic of Iran in the Caspian region that are useful for this resources.

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**CHAPTER 2: OIL AND GAS RESOURCES OF THE  
CASPIAN SEA AND POSITION OF IRAN**



## **Introduction**

The Caspian Sea region contains estimated reserves of 16-33 billion barrels of oil and 236-337 trillion cubic feet of natural gas. These oil reserves are equivalent to the estimated reserves of either the North Sea or the United States. The gas reserves are equivalent to the gas reserves of the United States. The Caspian regions oil and gas resources could exceed 162 billion barrels of oil and 328 trillion cubic feet of gas.

The Caspian Sea region is divided into three Basins. The South Caspian basin appears more likely to contain gas as the dominant hydrocarbon while the North Caspian basin appears more likely to contain oil. The Middle Caspian Basin is though by some not to be as prospective as either the North or the south Caspian basins. A large gas accumulation was recently discovered in the south Caspian Basin off the coast of Azerbaijan. A large oil discovery on the Russian Caspian Sea coast and possibly one of the largest oil discoveries in 20 years, off shore Kazakhstan, has occurred in The North Caspian Basin.

Te most likely market for Caspian natural gas is near by Turkey, while Caspian oil could supply the world market through a variety of Routes. Major markets lying east of the Caspian Sea region, such as Japan , India , Pakistan , and China , would like to reduce their dependence on Middle East oil.

Iran, a littoral Country of the Caspian Sea, is beginning to take a more active role in both the transport of oil and the exploration of oil and gas in its sector of the Caspian.

Additionally, the Iranian National oil Company, NIOC, has a 10% stake in the Azerbaijan International oil Company and in international ventures in other sectors of the Caspian.

Iran is actively promoting and negotiating oil swap contracts that involve Chinese firms as both contractors and financiers. The Caspian Sea is a 700-mile –long body of water in central Asia, land located between Azerbaijan, Iran, Kazakhstan, Russia and Turkmenistan. While not a littoral state , near by Uzbekistan is included by some as in the Caspian sea region in view of its energy resources Of the six countries , only Iran is a member of the Organization of petroleum Exporting Countries (OPEC).

Azerbaijan, Kazakhstan, Turkmenistan, and Uzbekistan are former members of the Soviet Union, which became independent in 1991. The Caspian Sea region historically has been an oil and gas producer, but many believe that the region contains very large resources of oil and gas capable of much greater out put. This chapter discusses opportunities of Iran: Oil and Gas Resources of Caspian Sea and position of Iran.

## **.2.1. Oil and Gas Resources of The Caspian Sea**

### **2.1.1. Current Production and Proven Reserves**

The Caspian Sea region presents is a significant, but not major, supplier of crude oil to world markets, based upon estimates by BP, Amoco and the U.S Energy Information Administration, U.S. Department of Energy. The Caspian region produced an estimated 1.4-1.5 million barrels per day (bb l s/day) including natural gas liquids in 2001, or 1.9% of total world out put (table1). More than a dozen non-Caspian countries each produce more than 1.5 million bbl s /day. Caspian region production has been higher, but suffered during the collapse of the Soviet Union and the years

following. Kazakhstan accounts for 55% and Azerbaijan for about 20% of current regional oil out put.<sup>1</sup>

The Caspian Sea regions relative contribution to world supplies of natural. Gas is larger than that for oil. With gas out put of about four trillion cubic feet per year (t c f/yr), it accounts for 4.7-4.8% of world production (table 1). As with oil, gas production has been higher, but suffered during the collapse of the Soviet Union and the following years. Uzbekistan and Turkmenistan are the heavily predominant producers, with production of 1.8-2.0 t c f/yr and 1.5-1.7 t c f/yr, respectively, they together account for 85-90% of the regions gas out put, depending upon the estimation source.<sup>1</sup>

**Table1. Oil and gas production in the Caspian Sea Region.**

**Crude oil (thousands of barrels per day), Natural Gas (trillion cubic feet per year)**

Country	E I A 2001	B P Amoco 2000	E I A 2010	E I A 2000	B P Amoco 2000	E I A 2010
Azerbaijan	317	300	1,200	0.212	0.187	1.100
Iran	-0-	n.a.	-0-	-0-	n.a.	-0-
Kazakhstan	804	745	2,000	0.170	0.378	1.100
Russia	11	n.a.	300	0.030	n.a.	n.a.
Turkmenistan	148	150	200	1.660	1,547	3,900
Uzbekistan	152	175	n.a.	1.960	1.843	3.000
Total Caspian sea	1,450	1,400	3,900	4.050	4.000	9.100
WORLD	76,821	74,510	118,300	84.690	85,500	162.000

Sources: Energy Information Administration (EIA). British Petroleum Amoco. International Energy Annual 2008.

Also as with oil, region's proven reserves of natural gas are a higher proportion of the world total than is its natural gas production. In some important instances, exploration efforts hoping to find oil have found almost entirely gas instead. Proven reserves of natural gas in the Caspian Sea region total about 240-260 tcf, or 4.7%-4.9% of the world total.<sup>1</sup>

### **2.1.2. Resources and Production Prospects**

There is a likelihood of much greater additional reserves of crude oil and natural gas being found in the Caspian Sea Region. Much of the known reserves have not been developed yet, and development usually leads to discovery that prospects are larger than originally believed. Moreover, areas remain unexplored. The E I A estimates that there is a 50% chance that an additional 293 billion barrels in proven crude oil reserves are ascertainable. Which would increase the present regional total by 9 to 16 times? Proven reserves of this additional quantity would rival the amount now held by Saudi Arabia (table 2) and could come to 20-25% of total world proven reserves. Of course, there would be some depletion of reserves in the mean time, E I A estimates that Caspian Sea region oil production will more than double by 2010 – to about 3.9 million barrels/day.

Additional proven reserves of natural gas also are in prospect- a smaller gain in relative terms than in oil but still very large E I A estimates that there is a 50% chance of an additional 300 tcf of natural gas reserves in the region – more than the present amount of regional proven reserves. Should this be the case, total Caspian region proven reserves of natural gas would double, and at least equal present U.S. and Saudi Arabia reserves combined even after accounting for depletion from likely production