THE CASPIAN SEA AND THE SECOND OIL RUSH

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Located between the Caucasus Peninsula and Central Asia, the Caspian basin has acquired a relevant strategic significance during the last few years. Following the disintegration of the Soviet Union, major energy assessments have revealed that one of the world’s largest oil reserves is located in the Caspian Basin, an area which, at the time, was considered to be more resourceful than the Persian Gulf. These assessments caused panic amongst international oil companies, as far as the issue concerning the domination of the area is/was concerned. The collapse of the Soviet Union has altered geo-political relations in the Middle East, the Persian Gulf and Central Asia and oil rivalries have also shaped post-communist relationships between those states bordering the Caspian Sea, whereas oil explorations have given rise to oil reserves ownership-related legal disputes between Iran, Russia and the newly-established Caspian states.

Aiming at reducing its dependence on Persian Gulf oil, Washington showed considerable interest in Azarbaijan’s relevant oil reserves, with such an area being considered politically more reliable than the Persian Gulf. Despite a generally widespread belief, American interest in the region’s oil reserves dates back to over 80 years ago, a time when Washington met a joint British and Soviet opposition. Recent oil developments, however, occurred at such a rapid pace, the region’s long history of oil search has been forgotten by many.

This paper is an attempt to reflect on the historical dimension of oil search-activities in the Caspian Basin. Significant oil reserves were left unexplored when the Soviet Union moved its oil industry away from the Caspian sea and towards both the Volga and Siberia areas. This decision was most probably taken because of considerable expenses and difficulties being connected with local oil reserves being located deeply offshore. These same reserves attracted huge western investments and caused considerable panic amongst the world’s major international oil companies. Such oil rivalries induced panic was reminiscent of the first oil rush of 1860’s. Having been discovered at Titusville, Pennsylvania, mineral oil was sold in 1859 at $20 a barrel as lighting fuel. Within two years, such price fell to 10 cents a barrel as all available land in that area of the U.S.A. had already been purchased for oil exploration related-aims. When local oil wells exhausted, the price went up again, to $4 a barrel but another major oil discovery in 1901 at Spindletop, Texas, brought it back down to 25 cents a barrel, since oil flowed at 80,000 barrels a day in what became known as the greatest gusher of all times. Such aforementioned rivalries, however,
gave rise to legal and land title-related disputes. Despite this though, by 1860 America’s oil industry had become an extremely lucrative business, with a production cost of $1 a barrel. Considered to be a new gold rush, it attracted prospectors who had earlier moved to California. In 1861, when the North went to war against the South, Lincoln mentioned oil as a source of strength for the unionist side. America’s oil industry grew rapidly during the last four decades of the 19th century. Domestic consumption, which was only a few thousand barrels in 1859, reached 500,000 barrels in 1860 and 64,000,000 barrels in 1900.

The history of America’s involvement in the Caspian region dates back to over 80 years ago, when American oil companies were invited to search for oil in the north of Iran. Iranian nationalists, in an attempt to involve a new competitor into an until then well-heeled Anglo-Soviet commercial rivalry, granted Sinclair Consolidated Oil Company a concession to cover Iran’s northern provinces, those bordering the Soviet Union. Such an attempt was unsuccessful as it met with fierce Anglo-Soviet opposition. In the 1940’s, fear of oil depletion dragged American oil companies back to the Middle East. Iranian monarchists, worried about the Shah risking to be strongly reduced in his prerogatives, resorted to the same policy of involving a third power and requested American assistance in order to explore oil outside the area covered by the Anglo-Iranian Oil Company. Moscow’s opposition, despite an understandable desire for Allied cooperation during the war, caused an international oil crisis in 1944.

During the course of recent history, European has also shown considerable interest in the area. Supported by their legations, many European powers chased a variety of concessions, ranging from railway to mineral rights. It is essential to present a brief historical background as far political and commercial rivalries were/are concerned, as this will help understand why commercial concessions were granted. Following the conquest of Baku in 1501 by Shah Esmail I, the Caucasus was mainly under Iranian rule until 1800 when Georgian ruler, tired of both Iranian and Ottoman rule, started looking at Russian. Various military conflicts between Iran and Russia eventually resulted in the loss of Baku in 1806, of northern Caucasus in 1813 and of southern Caucasus in 1828. Russia’s gradual advance into Central Asia began with the occupation of Ashuradeh in 1841 and, as far as Iran was concerned, it was completed with the conquest of Sarakhs, on Iranian border, in 1881. In that same year, the Trans-Caspian railway opened, thus connecting the Caucasus Peninsula with Central Asia.

Since at least 1855, Russian generals had a plan concerning the invasion of British India. British worries over Russia’s plans eventually culminated in the Granville-Gorchakov Agreement of October 1872, which excluded Afghani-
stan from Russian influence. Towards the end of the nineteenth century, Anglo-
Russian commercial rivalries in Iran were strong. Following a series of defeats
from Russia, Teheran signed several peace treaties offering Russian merchants
relevant privileges, in order for them to operate in Iran. Britain’s position was
stronger as London was controlling both India and the Persian Gulf. Iran’s in-
ternal security was of paramount importance to Britain, considering Iran’s role
as a buffer state protecting British India. Lord Salisbury’s comments in 1889
that had it not been for India’s security, Britain would not have troubled itself
in Iran is a clear evidence of this.

A part of Russia’s oil industry was located in the Caucasus. Oil wells existed
in Azerbaijan as early as the 1870’s and continued producing also during the
Second World War. The Caspian Basin was the Soviet Union’s main oil source
until the 1950’s. Russian oil first appeared in Tehran in 1876. Due to a Russian
export tax on refined products, oil imported from Baku was dense and had to
be processed in a refinery located in the Iranian port of Rasht. About 50% of
that refined oil kerosene or, in a homely term, lamp oil, with the remainder,
which could yield gasoline, petrol, fuel and lubricating oil, being treated as
waste! Iran was Moscow’s exclusive oil market until 1923, in 1929 70% of
Iran’s oil was imported from the Soviet Union and only in 1933 did the Anglo-
Persian Oil Company did rise to a monopolistic position, as far as Iran’s domes-
tic market was concerned. A large number of Iranian labourers had spent at
least some time in Baku’s oil fields. Entner, in his study of commercial relation-
ships between Iran and Russia, states that there were very few Iranian labourers
in the north of Iran who had not spent a year in Baku.

Germany also had a foothold in Mesopotamia. This was most probably be-
cause of political rivalries between Britain and the Ottoman Empire. Pro-Ger-
man sentiment was strong and the Sultan, like Iran’s statesmen, played the
game of using one great power against another one, in order to prevent the
partition of his empire. In 1891, a leading figure as far as Baku’s oil affairs
were concerned, Gulbenkian, published a report on the possibility of oil be-
ing discovered in Mesopotamia. The report was so favourable that the Sultan
transferred tracks of land from the Ministry of Mines to his Civil List. Rivalries
between London and Berlin reached their peak in 1898 when the Kaiser paid a
state visit to Constantinople/Istanbul. Britain’s concern was the Baghdad-Berlin
Railway and its oil rights 20 km each side of it. The perceived threat to its com-
communications with India, the Far East and Australia also worried Britain, as far as
the real meaning of Germany’s penetration in the Middle East was concerned.
Indeed, it was this growing Anglo-German rivalry which played a major role
in the build-up process leading to the out break of the First World War and it
was the importance of Caspian oil which pressed Germany to advance towards
Baku’s oil fields in 1941.
At the turn of the twentieth century, Britain was heavily dependent on American oil, which was mainly supplied by two major companies: Exxon and Shell. The extent of their control was such that in 1919 Sir Wilfred Stokes openly commented on this role/position. British political interests in Iranian oil may have started in 1890 when Britain’s Ambassador, Sir Henry Wolff, submitted a report to Lord Salisbury, maintaining that Russian oil fields were getting exhausted, whereas Iran’s virgin oil fields promised a good future. It was a misleading report. Baku’s oil fields peaked in 1901 and more oil was discovered in Grozny and Maikop.

British authorities were keen on oil search/exploration and Sir Henry encouraged William Knox D’Arcy to invest in Iran. This intervention by Sir Henry surely had an impact on Iran, since it resulted in D’Arcy obtaining an oil concession which, unlike other concessions granted to Britain, coincided with Britain’s desire for oil/energetic independence. D’Arcy’s concession covered Iran’s entire territory, except its five northern provinces bordering Russia. He was granted exclusive pipe-laying rights. Oil had been searched for in Iran for about 30 years without success and every time oil was reached, it was only about a gusher which diminished after a few days. In 1908, D’Arcy’s engineers found oil in commercially relevant amounts in Meidan Naftoon (later on Masjed Soleyman) with British authorities promptly entering the scene, since oil rivalry could not be separated from oil search/exploration. The Anglo-Persian Oil Company was thus established and Britain obtained a large stake in the company.

Such a major oil discovery forced Britain to give Russia a free hand in the Dardanelles and to divide Iran, according to a secret agreement of 1915. When the new Bolshevik Government cancelled all Czarist concessions and restored them back to Iran, Britain took advantage of what was going on in the Soviet Union and made a calculated move in order to acquire control over Iran’s entire oil reserves. Khoshtaria, a Soviet citizen who was the owner of an oil concession in the north of Iran, sold it for £100,000 to the Anglo-Persian Oil Company which, in May 1920, gave birth to a subsidiary, the North Persian Oil Company, with a capital of £3,000,000. Britain’s bad reputation in Iran for being an imperialistic power, though, resulted in the subsequent validity-decline of the aforementioned concession, with Iranian nationalists being resentful of Britain’s attempt to gain control of their entire country; being resentful of Curzon’s attempts, in 1919, to turn Iran into a British Protectorate and, therefore, looking for a replacement.

America’s oil interests in Iran flourished during the 1920’s. Iranian nationalists considered America as a distant country and invited American oil companies to invest in Iran, an invitation which was resented by both Britain and the Soviet Union. A year later, Iran started negotiations with Standard Oil of New Jersey but joint Soviet and British opposition defeated this move. The Anglo-Persian Oil Company, reminding Standard Oil of the
fact that it owned exclusive pipe-laying-rights in the south of the country, offered to share Iran’s northern part, granting Standard Oil/the latter a say in the Company’s/in its board of directors! This met with fierce Iranian opposition, with Teheran giving way to negotiations with another American oil company: Sinclair Consolidated. In 1923, Sinclair was granted a concession in the north of the country but again the Anglo-Persian Oil Company refused any other competing pipe-laying in the south, whereas Moscow, in turn, refused to grant access to Black Sea through the Caucasus! The murder of an American official in Teheran, Major Imbrie, got attributed to British undercover agents who allegedly had the mission of sabotaging America’s oil explorations. The British fury resulting from the invalidation of the North Persian Oil Company was reflected in a comment made by G P Churchill of the Eastern Department at the Foreign Office. He wrote “The present Persian Government contemplates throwing Persia entirely into the hands of the Americans?” and another British official commented with confidence that the North “would be locked off by us from the Persian Gulf.” With oil-carrying to sea ports by any means other than a pipeline not being profitable at all, as far as America’s oil companies were concerned, America was out of the oil race in the early 1920’s.

A question might arise as to the position of France’s oil companies. Up to 1920, France had no share in any oil well in the Middle East and was dependent on American oil. The reason for this was perhaps to be connected with the decline of French influence, as far as the eastern side of the Mediterranean is concerned, since Napoleon was defeated in Egypt. In those days, a concession was not worth the paper it was written on, unless backed by a powerful foreign legation. Britain’s position in Egypt and Sudan was strong and it was pre-dominant in Iran. France had made its appearance in the oil race of the Middle East only after the First World War, when it was given Germany’s 25% share in the Turkish Petroleum Company. The Germans themselves were no rivals for Britain in Iran either.

America’s involvement in Iran experienced a come-back during the 1940’s. Germany’s invasion of the Soviet Union in June 1941, and the threat Berlin posed to the oil fields of Baku, created the need to assist the Soviet Union in its efforts to contain Hitler’s expansion. Allied planners had to find the safest route, as far as the delivery of goods to the Soviet Union was concerned. The Trans-Iranian Railway, which came to be known as the Persian Corridor /The Bridge To Victory, appeared to be the only suitable solution. Therefore, the 1941 Anglo-Soviet invasion of Iran marked the beginning of a new era in international oil rivalries. Only five days after the invasion, Moscow demanded the development of the Kavir Khurian Oil
This company had been set up by Iran in 1925 with a capital of 50,000,000 Rials (40 Rials to the pound) and Khoshtaria had purchased a 65% stake in it for the benefit of the Soviet Union!

American oilmen were already involved in both Saudi Arabia and Bahrain. Fear of oil depletion had dragged them into the scramble for oil of/in the Middle East. Premier Soheily rose to the opportunity and requested American assistance, in order to explore oil outside the area covered by the Anglo-Iranian Oil Company. In 1943, two American oil companies surveyed Iran, looking for new oil resources. Representatives of Britain’s Shell Oil arrived in November 1943, with the aim of surveying Baluchestan, followed by representatives of both Standard Vacuum, in December, and, later on, Sinclair Consolidated Oil. Soon they presented the government with their proposals of oil concessions. Moscow was concerned about such developments, as the 1921 Treaty of Friendship between Teheran and Moscow forbade Iran from granting old Czarist concessions to a third party.

Anglo-American cooperation was vital during the war and the Anglo-American Oil Conference of 1944-45, initiated by London, is an indication of this. A first conference was held in April 1944 and was attended by representatives of many important companies and institutions (Anglo-Iranian Oil Company, Royal Dutch Shell Group, British Board of Trade, Admiralty, British Treasury, Foreign Office, Ministry of Fuel and Power). This conference was followed by a second one three months later and on August 8th an agreement was reached, both defining major operation criteria, as far as the oil industry(-ies?) was concerned, and setting up an international petroleum commission.

Moscow responded, in September 1944, by dispatching its deputy Foreign Minister, Kavtaradze, to Tehran. Formally, the aim of his visit was to discuss the issue of oil in Semnan, which was covered by Kavir Khurian Oil Company. Kavtaradze met with premier Saed and demanded an oil concession in Iran’s northern provinces. Despite Saed’s promise to raise the issue within Iran’s cabinet, Kavtaradze wanted a clear answer nonetheless but his rough manners created enough opposition amongst Iranian nationalists, thus forcing Saed’s government to announce, on October 16th 1944, that no oil concession would be granted until the end of the war. The real reason behind this refusal was that Iran had, once again, decided to involve American interests, in order to create a rival for both Britain and the Soviet Union.

The aforementioned oil competition went on, despite opposition by America’s Ambassador in Tehran, who was worried about allied relationships being/getting jeopardized by it. On December 2nd, Iranian nationalists introduced a bill forbidding government officials from negotiating
oil concessions without approval from the Majles. The bill was ratified that same day with 80 votes against 7, thus ending the oil crisis\textsuperscript{10}. One consequence of the 1944 oil crisis was that oil became an issue for public debate. In future years, the public would have shown a strong desire to have a share, as far as oil exploration in Iran was concerned, and demanding the nationalisation of Iran’s oil industry.

Despite a specific requirement having been outlined within the Tri-partite Treaty of 1942, Moscow refused to evacuate Iran in 1945. In February 1946, with his country’s domestic resources being insufficient for the purpose, Stalin announced that he needed Soviet oil production capacity to be doubled\textsuperscript{11} and the oil issue came up in 1946 during premier Ghavam’s negotiations with Stalin over Soviet withdrawal from the north of Iran. Perhaps noticing that Stalin wanted a face-saving excuse, Premier Ghavam seized the opportunity, offered Stalin an oil concession in the north of Iran and thus secured Soviet withdrawal in May 1946. Northern Iran’s oil reserves were actually imaginary, for no oil had ever been found there. Moscow must have already been aware this, since it was already involved in illegal drillings on the Iranian shores of the Caspian Sea\textsuperscript{12}.

Half a century later, there is still a great interest in extracting oil in/from the Caspian Sea. The Caspian Basin contains the world’s third largest oil and gas reserves, after the Persian Gulf and Siberia. According to one estimate, oil reserves amount to 220 billion barrels\textsuperscript{13}. The area has now emerged as a centre of power politics, since it is estimated that significant quantities of oil and gas resources are also to be found in Central Asia. Iran and the Soviet Union shared the resources of Caspian Sea but the latter’s disintegration/the disintegration of the latter gave rise to right owning-related legal disputes between neighbouring countries, as far as the oil reserves of the Caspian Basin are concerned. Iran and Russia referred to their treaties of 1921 and 1940, which gave them the right to share the sea with a 10 mile coastal fishing zone. A question also has arisen/arose as to whether the Caspian Sea should be defined as the world’s largest lake or a as landlocked sea. Lakes can be divided but inland seas are subjected to maritime laws, such as the 1982 international convention on the Law(s) of the Sea(s).

Moreover, pipeline routes have become an issue too, with several different possible options involving Russia, Iran and the Caucasus Peninsula. Turkey played a critical role by providing a pipeline towards the Mediterranean port of Ceyhan. Not surprisingly, the involved pipeline emerges next to an American airbase stationed at Incirlik! The pipeline is of major importance, as it avoids the narrow sea of Marmara.

After nearly 200 years, some Iranians still regret that Caucasus Peninsula had to be ceded to Russia. Recent developments regarding/concerning
Iran’s loss jurisdiction over the Caspian Sea may have fuelled some nationalistic feeling, with both Iran and Russia possibly disturbed/upset because of the area’s potentiality having been left undeveloped when they shared a joint jurisdiction over it. Teheran and Moscow have referred to their treaties of 1921 and 1940, albeit without success.

Original energy assessments may have been exaggerated and Caspian oil might not weaken OPEC’s control over prices. Washington’s conduct, however, plays a highly influential role, as far as supporting its own commercial investments is concerned and propositions regarding issues such as present and future oil explorations, present and future energy security and present and future pipeline routes have become a vital part of policy making.

The region has now emerged as a centre of oil production which is regarded as vital by/for western powers. To them, treaties between Iran and the Soviet Union are as irrelevant as the fact that Caspian Sea produces more than 80% of the world’s total amount of caviar! The emphasis is now on global energy security.

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NOTES

1 For a description of American oil industry see Hamilton C W, American and Oil in the Middle East, (Houston : Gulf Publishing Co 1952).
3 Public Records Office (PRO) FO 60/506, Indian Office to Foreign Office, 22 May 1889.
4 NIOC, National Iranian Oil Company, Tarikh va Matneh Gharardadhai marbut be Naft (History and Text of Oil Concessions), 1966, p 12.
7 PRO FO 371 6448 30 August 1921.
8 British Petroleum Archive (BP) H Series 10 80, memorandum on the North Persia Oil Concession, p3-4.
10 PRO FO 371/40242, Bullard to FO, 4 December 1944.