Transport Potential of the Caspian Sea: Prospects and Limitations

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This article addresses the Caspian Sea and its transport potential. Located at the junction of important geo-strategic regions in the center of Eurasia, the Caspian is an important component of the area’s transport system. Moreover, geopolitical struggles over transport potential are no less intense than competition for its energy resources. Two major strategic transport routes have been delineated: the East-West route (or TRACECA); and the North-South route. Competition between routes actually has a positive effect on the development of transport infrastructure in the region. All project participants are striving to create the optimal conditions for transit and to increase the efficiency of infrastructure. As the result, the general appeal of the Caspian Sea as transport route has increased. At the same time, the transport sector offers an important economic opportunity for a number of countries in the context of the financial crisis and decline of oil prices.

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Introduction

The Caspian Sea is an important component of the transport system of the Eurasian continent. When the Great Silk Way was at its peak, a number of its offshoots circumvented or crossed Caspian Sea. Today, the major logistic hub is the natural reservoir that is located in the center of the continent, connecting to a network of the navigable rivers. Moreover, geopolitical struggles over transport potential are no less intense than competition for its energy resources.

Two major strategic transport routes have been delineated; the first is the East-West route, initiated by the West. The core component of this corridor was the TRACECA project, which has not reached its planned capacity. China’s ‘Economic Belt of the New Silk Road’ project has replaced the European project. The second major initiative is the North-South route. Russia and Iran are active proponents of this route, aimed at creating a fully-fledged international transport corridor: Indian Ocean-Iran-Caspian Sea-Russia-Europe. The lifting of international economic sanctions against Iran and Tehran’s desire to intensify cooperation with other Caspian region countries may herald a new chapter in the development of this transport route.

The development of any transport initiatives, and even competition between routes, will promote the overall growth of the Caspian Sea as a transport hub. In turn, the successful realization of the region’s transport potential is crucial for the economic development of the Caspian countries. At the same time, the transport sector offers an important economic opportunity for a number of countries in the context of the financial crisis and decline of oil prices.

Legal and infrastructural limitations on the transport potential of the Caspian Sea

One of the barriers to the full realization of the Caspian Sea’s transport potential is its unresolved legal status. The Convention on the legal status of the Caspian Sea must agree upon a regulatory regime that includes a zone of free navigation, exclusive economic areas for each country, a system of navigation, insurance of transport routes, and safety of navigation.

For many years, the littoral states have been working on a draft of the Agreement on Merchant Shipping. It is anticipated that the document will ensure smooth passage for vessels across the
Caspian Sea. However, there are a number of clauses in this draft on which the parties have not reached agreement. These questions around the use of internal maritime routes and the organization of transportation, as well as conditions of reciprocity and responsibility. In addition, Azerbaijan insists that the Agreement should include a provision stating that the Russian Federation must provide free transit through its internal rivers for ships from the Caspian countries.

Notwithstanding the delay in finalizing the agreement, the issue of maritime navigation in the Caspian has always been the issue of utmost importance and the key focus for the governments of the littoral states. This issue was discussed during the fourth presidential Caspian Summit, held in September 2014 in Astrakhan, Russia. In the final declaration, four out of 19 points concerned questions of navigation, to varying degrees. The significance of this lies in the fact that the declaration outlined the key approaches to the resolution of disputed issues. These agreed approaches will be further implemented in the Convention on the Legal Status of the Caspian, and the Agreement on Merchant Shipping.

Paragraph 7 of the declaration determines the size of the exclusive economic zone, and the specific zones of national sovereignty. The width of two of these zones makes 25 miles. The remainder of the Sea remains in common use, and free for navigation and fishing. Paragraph 8 provides for freedom of navigation for all littoral countries outside the zones of national sovereignty.

Paragraph 9 addresses issues of maritime safety and security, but without concrete proposals or mechanisms. Finally, paragraph 10 regulates the issue of access to the maritime area of the Caspian Sea. Only vessels belonging to the coastal countries are permitted access the waters of the Caspian.\(^1\)

The need to update the fleet of ships transiting the Caspian has long been an impediment to transport sector development. The majority of ships operating on the Caspian Sea are mixed ‘river-sea’ navigation vessels, which once belonged to various Soviet era river shipping companies, in addition to the Caspian Sea shipping company. The most common multipurpose dry cargo

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vessels are the ‘Volgo-Balt’ and ‘Volgo-don’, ‘Omsk’, ST / STC types. Most of the ships were constructed in 60-80-ies of the last century.

Recently, the countries of the region have actively invested in the construction of new ships. Kazakhstan and Azerbaijan have been developing their sea transport companies. The Azerbaijani Caspian Sea Shipping Company’s fleet consists of 86 ships with a overall deadweight of 434,782 tons, among them 41 tankers and 35 dry cargo ships. Part of the company’s fleet consists of new vessels which were built in the early days of independence, with the aim of developing transport potential.

Kazakhstan is pursuing a similar policy. In 2005-2006, the ‘Kazmormortransflot’, the country’s major maritime transportation company purchased a number of modern tankers with deadweight of 12,000 tons. This allowed Kazakhstan to significantly increase the export capacity of its oil fleet in terms of the volume and geographical delivery area for raw materials. About 70 ships operate under the Russian flag. Iran has a few shipping companies operating on the Caspian the sea; the leader among them is ‘Khazar’ which in 2014 transported nearly 1 million tons of freight. Turkmenistan, in turn, has declared its intention to develop a commercial fleet.

Experts also note problems of document flow and insurance of transport shipping on the Caspian Sea. Because there are no uniform standards and requirements for insurance of courts and freights, there is no agreement on the standard documents necessary for the transportation of goods. Each company has its own style; this lack of harmonization damages investment appeal, and reduces reliability, transparency, and efficiency.

The main Caspian Sea transport routes

The New Silk Way

The New Silk Way, a Europe-Caucasus-Asia transport corridor (also known as TRACECA) was first initiated almost 20 years ago. During the Soviet era, there was a uniform, integrated, and

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mostly isolated transport system. After the collapse of the USSR, 15 newly independent states appeared on the political map of the world. These states had limited transport connections with countries outside the Soviet bloc. The TRACECA project envisioned the creation of a transport corridor connecting the former Soviet republics with Europe, and then, in the longer term, with China.

However, while the original vision of the TRACECA project has not materialized, the notion of a global transport route has led the countries of the region to develop a number of independent projects. In February 2007, the presidents of Azerbaijan, Georgia and Turkey signed an agreement on the construction of the Baku-Tbilisi-Kars railway. The project includes the construction of the 98 km long Kars-Akhalkalaki railroad (68 km in Turkey and 30 km in Georgia), as well as the rehabilitation of the Akhalkalaki-Tbilisi railroad. Following the most recent amendments and allocation of additional resources, the total cost of the project has increased from $600 million to $1,2 billion. It is supposed that the annual transportation capacity of a new transport route will be up to 20 million tons of freights.

Though this project is not a direct descendant of TRACECA, it is obvious that it fits into an overall vision of a multimodal Europe-Caucasus-Asia transport corridor that bypasses Russia. Thus in Turkey, the Baku-Tbilisi-Kars will be connected to ‘the Marble Project’ – the undersea tunnel across Bosporus strait, which will finally enable delivery freight from Baku to the EU via railway.

While China was not an official participant of TRACECA, it was nonetheless interested in the project’s implementation. Moreover, it subsequently became the main initiator of a transport corridor project. In September 2013, during his visit to Astana, Chinese President Xi Jinping announced the “Economic Belt of the New Silk Way’. For Beijing, ‘The New Silk Way’ offers same benefits the EU has perceived. It will help strengthen its influence in the region, expand sales markets, and will also support the economic development of China’s northwest regions (in particular, Xinjiang).

China has big expectations for this transport corridor and has made major financial investments in the development of its trans-

port infrastructure. In 2004, the first TRANS-China railway was built, connecting Nunungan port in the Yellow Sea with the Kazakh border, turning the remote town of Horgos into a transport and logistics hub. Beijing also plans to build an additional 12 highways linking Xinjiang with the regional countries.\(^7\)

Counting on the Chinese freight traffic, Kazakhstan has taken steps to realize its transit potential. The main project is the Dostyk – Aktau railroad that connects the Chinese border with the Caspian port.\(^8\) On July 28 2015, a train consisting of 41 cars and 82 containers left the Chinese province of Shiheji. The train passed through the Shikhetsi-Dostyk-Aktau-Alyat corridor. On August 3 it arrived at the Baku international sea port.\(^9\) Astana is also seeking to reduce its dependence on Russian transport routes. It has built a new 275 km long branch line between Hromtau and Altynsarino, enabling cargo movement between its northern and western regions without using Russian railways.\(^10\) China is also planning to construct a railway line through Kyrgyzstan to Uzbekistan. Currently these countries are connected by road.

China’s initiatives to develop pipeline infrastructure for importing raw materials from the region must be addressed as a separate topic. China is currently constructing the fourth branch of the Central Asia-China gas pipeline.

An analysis of the various measures taken by China demonstrate that the “Economic Belt of the New Silk Way” is a priority, in order to secure a western transport route through Central Asia. Work on the Lanzhou-Xinjiang segment of the Lyanyyungan-Urumqi high-speed railway line has begun; large transport and logistical centers in the cities of Xian, Lanzhou, Urumqi have been created; and the modernization of railway transitions at the Kazakh border has been ensured. In terms of official discourse in China, Central Asia’s role in the creation of the China-Europe overland bridge is a dominant theme.\(^11\)

In recent months, the Trans-Caspian International Transport


Route (TMTM) has received significant media coverage. In October 2013, member countries created the Coordinating Committee on the Development of the TMTM. In Istanbul at the end of November 2015, the largest transport companies of the states, including the Chinese Minsheng Logistics, the Georgian Trans Caucasus Terminals, the Kazakhstan KTZ Express, the Azerbaijani Karvan Logistics and the Azerbaijani Caspian Sea shipping company, expressed their readiness to create a consortium for the transportation of goods from China to Europe.

It is estimated that a container leaving the Kazakh-Chinese border will be delivered to Turkey within 10 days, and the cost of transportation will be approximately $5,000. Those terms would be significantly more favorable than the conditions for transportation of goods via the Trans-Siberian Railway (12-14 days and $6,000-7,000 respectively). Route capacity is projected to reach 8 container trains per month, and by 2020, the volumes of cargo transportation on TMTM will exceed 6 million tons a year.

The main problem with the TMTM is weak demand on the part of Chinese suppliers. The majority of freight traffic from China traditionally goes to the EU by sea. A smaller proportion of freight is transported by land. Container rail transportation of Chinese goods to Europe takes place out in two ways: through Kazakhstan and the European part of Russia follow through Siberia (on the Trans-Siberian Railway).

North-South route

In the context of the transport capacity of the Caspian Sea, Russia and its neighbors have another megaproject, namely the international transport corridor (ITC) “North-South”. The agreement for this corridor was signed in 2000 between Russia, Iran and India. The route travels through the following points: Mumbai (India), the ports of Benrabas, Bendramirabad (Iran), Amzili (Iran), Caspian Sea, Olya port, Astrakhan (Russia), and St. Petersburg.

North-South International Transport Corridor

The agreement on the North-South ITC entails cargo delivery

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from various ports, both on the Caspian and the Black Sea. The components of the ITC include two existing international transport corridors: No. 9 (Finland - St. Petersburg – Moscow, with branches to Astrakhan and Novorossiysk) and No. 2 (Berlin - Warsaw - Minsk - Moscow - Nizhny Novgorod - Yekaterinburg), transport infrastructure of Volga and Don, including Volga-Baltic and Volga-Don canals, ports of the Astrakhan region (Astrakhan, Olya) and Dagestan (Makhachkala).

The long term plan is to create a junction between the ITC ‘North-South’ and the Trans-Siberian Railway, creating a major transit hub in Russia.

In the Caspian Sea region, the ITC has three main transport corridors: (i) the Transcaspian, through the seaports of Russia, Iran, Kazakhstan, Turkmenistan, and Azerbaijan; (ii) railway and automobile links along the western branch in the Astrakhan direction – Makhachkala – Samur, and further across Azerbaijani territory with an exit to Iran through the border station at Astara; and (iii) on the east coast via the railroad through Kazakhstan and Turkmenistan, with an exit to Iran’s railway system on the Tedzhen-Seraks border transition. All three directions will finally join up with Russian infrastructure networks, either railway, highways or internal waterways.

Even before the emergence of the ITC global project, some of its participants began to develop joint projects which later became important parts of emerging ‘North-South’ corridor. In 1996, Turkmenistan and Iran started the 295 km long Mashhad-Seraks railroad. Between 1996 and 2006, about 14 million tons were transported on the new highway, and turnover of annual goods was, according to official figures, close to 3 million tons.

At the same time, the Islamic Republic of Iran developed its internal railway infrastructure. By 2005 it finished the construction of 756 km of Bafk-Mashhad railroad. The Uzen-Gyzylgaya-Bereket-Etrek-Gorgan railroad, which connects Iran, Turkmenistan, Kazakhstan and Russia on the east coast of the Caspian Sea, is a key component of North-South. The memorandum on the construction of the highway was signed in Tehran in October 2007. Construction of the road began in 2009.13

On December 3, 2014 the ceremonial opening of the railroad - 146 km in Kazakhstan, 470 km in Turkmenistan, and 70 km in

Iran - took place. The officially declared capacity is up to 10 million tons of freight annually. The cost of the road for Turkmenistan was 371 million dollars; for Kazakhstan 430 million dollars; and 106 million dollars for Iran.14

The sea corridor of ITC North-South is developing successfully. According to Russia’s transport strategy up until 2030 (adopted on November 22, 2008), freight transfers through the Caspian ports of Russia must reach 16 million tons per year by 2010, exceeding 23 million tons by 2020. The share of container transportations must increase to 5.1 million tons in 2030, up from 0.7 million tons in 2010.15

However, many elements of the ITC project remain on paper, and indeed remain at the discussion stage. The actual volumes of cargo transportation are still far from the projected goals. It is only more recently, in anticipation of the lifting of the sanctions against Iran, that the branch line on the western shore of the Caspian Sea has been confirmed. In September 2015, the head of Azerbaijani railways Javid Gurbanov declared that Azerbaijan and Iran plan to finish construction of the Qazvin-Rasht-Astara railroad, which runs through Iran. “In the territory of Iran, work on the construction of a 200 km segment of the Qazvin-Rasht-Astara. Now the parties are engaged in search of sources of financing for joint construction of the remained site in 175 km” Gurbanov stated.16

In the long term, the Russian direction can be strengthened by the development of water channels. Today, two global megaprojects - the ‘Volga-Don - 2’ and the ‘Eurasia channel’ the project connecting the Caspian and Azov Seas - are on the agenda. Currently internal Russian river transport ways are the only means of ocean access for Azerbaijan, Turkmenistan, and Kazakhstan. However, the limited capacity of the rivers and channels are limiting factor in terms of the development of water transit of freight from the Caspian Basin through Russia. The average depth of the existing Volga-Don Canal is only 3.5 meters, and therefore the maximum deadweight of the used ships cannot exceed 5,000 tons. Moreover, both the Volga and the Don freeze in the winter, and so

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each year the channel can only take 5,000 ships, or 16.5 million tons of freight. In this regard the question of development and expansion of the capacity of internal waterways is highly pertinent; this will surely be a major project requiring substantial investments.

Conclusion

Against the backdrop of decline in oil prices, the Caspian countries are faced with the need to develop the non-oil sectors of their economies. In this situation, the transport sector offers an important direction for economic development. Strengthening the competition for transport routes within the region will improve the development trajectory of transport infrastructure. Eventually, this will allow the realization of the sea’s full transit capacity, creating the long term conditions for economic development of the non-oil sector. Thus, the development of a transport cluster in the region - even with the competition between different routes – will benefit all the players.

Despite the delay in the preparation of the Agreement on Merchant Shipping, the issue of navigation remains a key focus for the coastal states. Thus, this question was discussed during the fourth presidential Caspian summit, which was held in September 2014 in Astrakhan, Russia. In the final declaration, four out of 19 points concerned questions of navigation, to varying degrees. The significance of this lies in the fact that the declaration outlined the key approaches to the resolution of disputed issues. These agreed approaches will be further implemented in the Convention on the Legal Status of the Caspian, and the Agreement on Merchant Shipping.

There are two major strategic directions for the transport routes in the Caspian Sea region: the East-West route, or TRACECA, and the North-South route. The main problem with the East-West project is the weak demand on the part of Chinese suppliers. The majority of freight traffic from China traditionally goes to the EU by sea. Nonetheless, the route holds promise, especially the component that starts in Azerbaijan and runs to the West, which can be used to transport freight from Iran to the EU. Moreover, a post-sanctions Iran opens up a variety of new opportunities, and will provide access to the Persian Gulf and the Indian Ocean for the Caspian Sea countries.