



Woodrow Wilson
International
Center
for Scholars
Kennan Institute

Occasional Paper #288 Stakeholder Inclusion in Caspian Basin Natural Resource Management

Mary M. Matthews



**The Kennan Institute
The Woodrow Wilson International Center for Scholars**

The Kennan Institute is a division of the Woodrow Wilson International Center for Scholars. Through its programs of residential scholarships, meetings, and publications, the Institute encourages scholarship on the former Soviet Union, embracing a broad range of fields in the social sciences and humanities. The Kennan Institute is supported by contributions from foundations, corporations, individuals, and the United States Government.

Kennan Institute Occasional Papers

The Kennan Institute makes Occasional Papers available to all those interested. Occasional Papers are submitted by Kennan Institute scholars and visiting speakers. Copies of Occasional Papers and a list of papers currently available can be obtained free of charge by contacting:

**Occasional Papers
Kennan Institute
One Woodrow Wilson Plaza
1300 Pennsylvania Avenue, NW
Washington, D.C. 20004-3027
(202) 691-4100**

**Kennan Institute Research Workshop
“Contemporary and Historical Perspectives on Conflict in the Former Soviet Union”**

This paper was written in connection with the Kennan Institute’s Research Workshop on “Contemporary and Historical Perspectives on Conflict in the Former Soviet Union.” Research Workshops serve as a forum at which junior scholars can develop and discuss their research pertaining to a variety of topics in the former Soviet Union. “Contemporary and Historical Perspectives on Conflict in the Former Soviet Union” brought together six scholars from a variety of disciplines, including History, Anthropology, Political Science, and Environmental Science, and was led by Mark Katz of George Mason University.

Support for the Research Workshop on “Contemporary and Historical Perspectives on Conflict in the Former Soviet Union” and for the publication of this Occasional Paper was provided by the Program for Research and Training on Eastern Europe and the Independent States of the Former Soviet Union of the U.S. Department of State (funded by the Soviet and East European Research and Training Act of 1983, or Title VIII) and the George F. Kennan Fund. The Kennan Institute is most grateful for this support.

The views expressed in Kennan Institute Occasional Papers are those of the authors.

The Kennan Institute

Named in honor of Ambassador George F. Kennan's relative, George Kennan "the Elder," a nineteenth-century explorer of Russia and Siberia, the Kennan Institute is committed to improving American expertise and knowledge about the former Soviet Union. It is one of several area studies programs at the Woodrow Wilson Center.

Woodrow Wilson International Center for Scholars

The Center is the nation's living memorial to Woodrow Wilson, president of the United States from 1913 to 1921. Created by law in 1968, the Center is Washington, D.C.'s only independent, wide-ranging institute for advanced study where vital current issues and their deep historical background are explored through research and dialogue. Visit the Center on the World Wide Web at <http://www.wilsoncenter.org>.

President and Director Lee H. Hamilton

Board of Trustees Joseph B. Gildenhorn, Chair; Steven Alan Bennett, Vice Chair. Public Members: James H. Billington, Librarian of Congress; John W. Carlin, Archivist of the United States; Bruce Cole, Chair, National Endowment for the Humanities; Roderick R. Paige, Secretary, U.S. Department of Education; Colin L. Powell, Secretary, U.S. Department of State; Lawrence M. Small, Secretary, Smithsonian Institution; Tommy G. Thompson, Secretary, U.S. Department of Health and Human Services. Private Citizen Members: Joseph A. Cari, Jr., Carol Cartwright, Daniel L. Lamaute, Thomas R. Reedy.

The Wilson Council Bruce S. Gelb, President. Elias F. Aburdene, Charles S. Ackerman, B.B. Andersen, Russell Anmuth, Cyrus A. Ansary, Lawrence E. Bathgate II, Theresa Behrendt, John Beinecke, Joseph C. Bell, Steven Alan Bennett, Rudy Boschwitz, A. Oakley Brooks, Donald A. Brown, Melva Bucksbaum, Nicola L. Caiola, Albert V. Casey, Mark Chandler, Peter B. Clark, Melvin Cohen, William T. Coleman, Jr., David M. Crawford, Jr., Michael D. DiGiacomo, Beth Dozoretz, F. Samuel Eberts III, I. Steven Edelson, Mark Epstein, Melvyn J. Estrin, Sim Farar, Susan Farber, Roger Felberbaum, Joseph H. Flom, John H. Foster, Charles Fox, Barbara Hackman Franklin, Norman Freidkin, John H. French, II, Morton FUNGER, Gregory M. Gallo, Chris G. Gardiner, George D. Giffin, Steven J. Gilbert, Alma Gildenhorn, David F. Girard-diCarlo, Michael B. Goldberg, Roy M. Goodman, Gretchen M. Gorog, William E. Grayson, Ronald Greenberg, Raymond A. Guenter, Cheryl Halpern, Edward L. Hardin, Jr., Jean L. Hennessey, Eric Hotung, John L. Howard, Darrell E. Issa, Jerry Jasinowski, Brenda LaGrange Johnson, Shelly Kamins, Jim Kaufman, Edward W. Kelley, Jr., Anastasia D. Kelly, Christopher J. Kennan, Willem Kooyker, Steven Kotler, William H. Kremer, Raymond Learsy, Dennis LeVett, Francine Levinson, Harold O. Levy, Frederic V. Malek, David S. Mandel, John P. Manning, Jeffrey A. Marcus, John Mason, Jay Mazur, Robert McCarthy, Linda McCausland, Stephen G. McConahey, Donald F. McLellan, Charles McVean, J. Kenneth Menges, Jr., Kathryn Mosbacher, Jeremiah L. Murphy, Martha T. Muse, John E. Osborn, Paul Hae Park, Gerald L. Parsky, Michael J. Polenske, Donald Robert Quartel, Jr., J. John L. Richardson, Margaret Milner Richardson, Larry D. Richman, Carlyn Ring, Edwin Robbins, Robert G. Rogers, Otto Ruesch, Juan A. Sabater, B. Francis Saul, III, Alan Schwartz, Timothy R. Scully, J. Michael Shepherd, George P. Shultz, Raja W. Sidawi, Kenneth Siegel, Ron Silver, William A. Slaughter, James H. Small, Shawn Smeallie, Gordon Smith, Thomas F. Stephenson, Norman Kline Tiefel, Mark C. Treanor, Anthony G. Viscogliosi, Christine M. Warnke, Ruth Westheimer, Pete Wilson, Deborah Wince-Smith, Herbert S. Winokur, Jr., Paul Martin Wolff, Joseph Zappala, Richard S. Ziman, Nancy M. Zirklin.

Kennan Institute Advisory Council Chair, Ambassador Thomas W. Simons, Jr., Harvard University, Stanford University, and Cornell University; Harley Balzer, Georgetown University; Timothy J. Colton, Harvard University; Leokadia Drobizheva, Russian Academy of Sciences; Kathleen Kuehnast, George Washington University; Beth Mitchneck, University of Arizona; Catharine S. Nepomnyashchy, Barnard College and Columbia University; John Tedstrom, Transatlantic Partners Against AIDS; Heinrich Vogel, German Institute of International Affairs and Security and University of Amsterdam; Grace Kennan Warneke, Consultant.

Occasional Paper #288
Stakeholder Inclusion in
Caspian Basin Natural
Resource Management

Mary M. Matthews

Stakeholder Inclusion in Caspian Basin Natural Resource Management

by Mary M. Matthews

Environmental conditions in the Caspian Sea basin are extremely poor. This resource-rich area is attracting strong international interest. The people of the region are largely disenfranchised, and yet are the most affected by the poor living conditions and prospects for economic gain from sound natural resource management. They must be included in the process of decision making to reduce the negative political implications of both resource extraction and declining living conditions. This inclusion has the potential to improve their lives and their relations with the international community through inclusion, transparency, and encouragement of self-determination.

Political tensions in the Caspian basin will significantly increase if the interests of stakeholder groups are not systematically incorporated into natural resource management throughout the region. U.S. interests in the Caspian region are closely linked to environmental degradation and create conditions that adversely effect the movement of the former Soviet Caspian countries toward democratization and market economies. These circumstances can be avoided by increasing venues for multistakeholder participation in resource management projects throughout the region, and by conscientiously addressing the interests of the multiple stakeholders in the Caspian region. Failure to do this will result not only in additional environmental degradation but also more critically in the loss of important political and social capital in the region, the creation of a vacuum of influence, and the potential

vilification of U.S. interests in the Caspian basin.

WHAT IS THE PROBLEM?

The failure to systematically include multiple stakeholder¹ groups in the natural resource management of the Caspian basin will seriously exacerbate tensions throughout the Caspian region.² Environmental degradation in the Caspian threatens the social, economic, and political stability of the region. Competition over limited natural resources between stakeholder groups could inflame simmering conflicts of interest. The traditional lack of influence of environmentally affected stakeholders in the region created conditions that are not hospitable to positive ecological stewardship. The lack of sectoral³ cooperation that plagues the governments of the region further stresses attempts to coordinate sound national and regional environmental management. When these circumstances are combined with the perceived dangers of development of energy resources in the region, the threats to national and regional stability are magnified. A lack of significantly coordinated efforts in the region will result in declining environmental conditions, with an ever-present threat of volatile territorial disputes over transboundary degradation. A key to successfully coordinating efforts and reducing threats is to incorporate interests of multiple stakeholders into the project development process.

The author is a partner with Tethys Consultants and is a Senior Research Fellow at the GLOBIS Center for the Study of Global Issues at the University of Georgia. She would like to thank Kate Watters, Mark Katz, Tim Turner, Mary Margaret Golden and Hamid Ghaffarzadeh for their support in the earlier drafts of this paper. This paper was prepared for the workshop "Contemporary and Historical Perspectives on Conflict in the Former Soviet Union," Kennan Institute, October 16-17, 2003.

Caspian Ecocide

In 1995, the renowned scientist Henri Dumont penned an editorial in the *Journal Nature* direly warning of the forthcoming “Ecocide in the Caspian.”⁴ This article was based on his experience during an information-finding cruise for international environmental specialists concerned about the social and political effects of the ecological conditions of the Caspian waters. He warned that the extractive industry in the region would continue the legacy of severe pollution in the Caspian region and that this in turn could lead to even more profound ecological consequences throughout the region.

Although Dumont’s warning was a stark portrayal of the possible degradation that could occur in these landlocked waters, exacerbating tenuous political relations throughout the region, this worst-case scenario has yet to occur. Western oil companies continue to actively develop the energy resources of the Caspian, and environmental conditions have not collapsed.

Before complacency sets in, however, it is critical to recognize that the Caspian ecosystem remains relatively fragile. With no outlet for pollution in the Caspian basin, the accumulation of pollutants cannot be diluted but rather becomes more concentrated as the pollution load increases. In addition, the geographic isolation of the Caspian waters causes the endemic species to be more vulnerable to invasive species introduced through human activities. This in turn threatens the health and balance of existing species, leading to a decline in biodiversity. This in turn affects the other commercially valuable natural resource of the Caspian, the treasured sturgeon and the production of caviar.

Following the information-gathering cruise taken by Dumont and other researchers, the United Nations Environment Pro-

gram (UNEP), United Nations Development Program (UNDP), and the World Bank, as well as the European Union’s Technical Assistance to the Commonwealth of Independent States (EU/TACIS), set out to support the Caspian nations’ request for the development of the Caspian Environment Program (CEP). This was the first intergovernmental body created in the region that had ministerial-level cooperation from all five Caspian states. The environmental mission of the CEP is the “sustainable development of the Caspian environment, including living resources and water quality, protecting human health and ecological integrity for the sake of future generations.”⁵ This program also had the intent of creating a venue for stakeholders affected by environmental conditions to have input into resource management across the region.

Lack of Stakeholder Involvement

Stakeholders throughout the Caspian basin traditionally lacked institutionalized mechanisms for natural resource management. As the receptacle of waters from the Ural, Volga, and Kura Rivers, agricultural runoff, including pesticides, herbicides, and fertilizers, washed into the Caspian waters. During the “Green Revolution” of the Soviet Era, when agricultural quotas were set impossibly high, the soils were overloaded with these agrochemicals and subsequently infiltrated the waters of the Caspian. In addition, industrial development throughout the region used the Caspian waters as a sink for industrial wastes. In the post-Soviet transition period, there has not been a viable venue until recently for those stakeholders who are negatively affected by environmental conditions to voice their concerns or have an active hand in the management of these resources.

These ecological hazards combine

with more than a century of oil excavation to create an environmental nightmare not far from the apocalyptic depiction of Dumont's editorial. Skeletons of ancient oil rigs litter the landscapes, and the uncapped oil wells and decrepit pipelines spanning the shores inundated by the Caspian's rising waters at the start of the twenty-first century spell almost certain ecological disaster. These seemingly horrific conditions are hardly ideal for human habitation; yet coastal zone residents still survive here. One only need consider the environmental catastrophe of Sumgait on the northern edge of the Absheron peninsula to realize the compounded environmental problems affecting stakeholders who eke out a living there. The World Bank has identified Sumgait as a critical global environmental hot spot due to the environmental legacy left by Soviet industrialization, referring to it as "one of the most polluted cities in the world."⁶ Though Sumgait is a magnified example of the environmental problems in the region, it demonstrates the conditions Dumont predicted for the Caspian if alternate management approaches were not addressed.

During the Soviet era, stakeholders in the coastal zone did not have any realistic venue to influence resource management in a meaningful way. Dissent was clearly not tolerated, and understanding of the scientific ecological systems was underdeveloped. Value was placed on increased industrial and agricultural production. During the Soviet era, belief in human domination over nature was witnessed on a scale larger than anything previously endeavored. The damming of rivers, construction of canals, and mass modification of natural ecosystems were the Soviet signature on the lands and waters of the Caucasus and Central Asia. The Caspian was hit especially hard by these "developments" during the Soviet era. As concerns rose in the

1970s over the surge of Islam to the south of the Soviet Union, once-productive oil wells were quickly (and ineffectively) capped and left leaking.

The disintegration of the Soviet Union left environmental conditions in disarray. The expectation of democratization with independence left a void for regional stakeholders. In the post-Soviet era, stakeholders negatively affected by the environment were left largely without a voice, and chaotic economic conditions led to increased dependence on the natural environment for many. The waters of the Caspian quickly became overfished, with valuable species such as sturgeon nearing commercial extinction only ten years after the fall of the Soviet Union.

Moreover, the prospect of selling the Caspian oil to the international market pushed governments to lower environmental standards in attempts to attract investment from abroad. Again, coastal residents, public health care providers, nascent nongovernmental organizations (NGOs), educators, and environmentalists were left with almost no voice to address their concerns about the effects of natural resource management in the region. Though many Western oil companies expressed a clear interest in the Caspian energy reserves, numerous problems, from concerns over political stability to transportation, hampered much-needed investment.

Lack of Sectoral Cooperation and Capacity

It was at this time that the international community began to take an active interest in the Caspian environment, sponsoring the research cruise that fueled Dumont's concerns. Although the UNDP and UNEP were both well aware of the environmental degradation of the Caspian, they also recognized, much like the Western oil companies, that there were serious institutional and political

barriers to environmentally sound resource management in the region. The formation of the CEP was instituted as the Caspian states collectively recognized the need to address common environmental concerns that may create barriers to investment opportunities in the region.

In the first phase of the CEP, it was noted that there was an unfortunate lack of intraministerial communication and cooperation. There was minimal coordination among similar ministries within the region. For example, the agriculture and fishing ministries in the former Soviet Caspian countries were not actively communicating and were far from coordinating efforts with one another. They had very little interaction or communication with other ministries, such as energy, transport, or ecology within their own governments. The segregation of the ministries left significant gaps in effective resource management within or between states, and often led to turf guarding and redundancy of efforts.

The legacy of the Sovietized bureaucracy, now fiercely segmented and scuffling over shrinking budget revenues, created a chaotic bureaucratic maze for those attempting to work in the region, both internally and externally. Western energy companies, aid organizations, multilateral and bilateral donors, and others were stymied by an illogical system populated by individuals who had little exposure to alternative management structures and standard global business practices.

In addition, natural resource management was a narrow discipline-based effort as practiced by scientists who had minimal exposure to integrated ecosystem management. These scientists, though generally well trained, were constrained by disciplinary boundaries, bureaucratic segregation, and a pervasive belief that technological answers were available to fix environmental troubles.

This led to a serious challenge to an effective domestic capacity for environmental management. Therefore, when referring to regional stakeholders, it is imperative to include these government officials and their respective ministries because they are both influencing and influenced by environmental conditions.

Even if traditional stakeholders had had the civil society base from which to move forward and lobby for environmental stewardship, the state of the government was such that it would have been a wasted effort. Within the government, the ecology ministries were woefully underfunded, lacking basic equipment to complete their assigned work. Ministries responsible for fisheries management no longer supported hatcheries, and energy ministries were understandably preoccupied with wooing international investment. Economic hardship led governments to focus on basic needs of the people, and endemic abuses of power left natural resources there for the taking in many cases. Stakeholder concern for sound environmental management was not an issue for those in positions of power, and those eking out a meager living from their surroundings lacked the basic needs to allow them to address broader environmental concerns.

Further, the historical legacy of stymied opposition in the region created an atmosphere that is inhospitable to engaging civic debate regarding the management of the natural wealth of the region. The signing and ratification of the Aarhus Convention to improve public access to environmental decisions will improve conditions, but only if the transparency that it is intended to induce is allowed. In many cases, this is only titular and lacks any effective influence for NGOs in these countries.

If these conditions are not adequately addressed, the possibility of social, political, and economic disruption could be closely tied to an ecological catastrophe at the local,

national, or regional level. The significant rise in criminal activities surrounding fisheries, the possibility of a major oil spill at the local, national, or transboundary level, and the severe imbalance within the ecosystem due to loss of key species or havoc from introduced species could all cascade into social disruptions throughout the region.

These social disruptions carry economic and political ramifications in their wake. These problems cannot be constrained to territorial waters, and the transboundary effects could spark already smoldering hostility between perceived competitors for natural resources. In turn, this could quickly feed into instability throughout the region, exacerbated by economic insecurities and political fragility. This could leave a vacuum wherein factional marginalized groups could infiltrate society or destabilize the existing power structures, thereby creating a tinderbox of geopolitical tensions fueled by the plentiful natural resources of the Caspian basin.

WHY SHOULD WE CARE?

Tensions in the region over environmental issues could easily be linked to U.S. interests, reducing favorable conditions for U.S. investments in the Caspian basin. A lack of sectoral cooperation can limit the ability to maximize resources, leading to redundant international aid efforts and ineffective efforts that waste money. This situation works at cross-purposes to increase sectoral and regional political tensions. Ecological conditions can lead to poor public health and create adverse conditions for investment. These factors, combined with a lack of opportunity for legitimate public opinion to be voiced, lead to increased opportunity for U.S. interests to be vilified by those with ulterior motives and ultimately could lead to the targeting of U.S. interests in the region by hostile factions.

Lack of Sectoral Coordination Wastes Money

When the projects of international aid organizations and the U.S. Agency for International Development strive to enhance democratization, improve public health, encourage Western investment, and address environmental concerns in the region, they are often faced with bureaucracy of staggering proportions. Though these agencies are not unfamiliar with the challenges of transitional systems, navigating the turbulent and ever-changing bureaucratic structures can be exhausting at best.

Other times, organizations will set to work with one agency or ministry only to find that another parallel ministry exists that directly affects the efforts and outcomes of the projects. The lack of sectoral coordination at the national level often frustrates those attempting to offer assistance and improve conditions. Unfortunately, as these governments undergo transition, the shifting of responsibilities increases existing domestic confusion, and those working within the government agencies do not have a clear concept of the boundaries of their own sectors. This creates circumstances that delay project implementation, allow finances to be redirected, and result in conditions that do not favor investment.

This confusion leads to an ineffective use of project funds in many cases. For instance, a program from a bilateral lending agency can be established to address the decline in sturgeon fisheries in Azerbaijan. However, unless that program addresses the problems of overfishing from a lack of economic opportunities for coastal residents, silting of spawning beds from construction upstream, low fecundity rates of sturgeon resulting from agrochemical ingestion, and lack of enforcement to reduce poaching, the program will not sufficiently address the

problem it set out to solve. Yet addressing these issues requires the cooperation of the ministry of agriculture, the ministry of economy, ministry of labor and social protection, ministry for ecology and natural resources, state property committee, transportation ministry, foreign affairs ministry, and local governments. Only a few of these agencies see their involvement as more than marginal in fisheries management, and therefore beyond their scope of responsibility. Yet the actions of these organizations directly affect the health of these fisheries. Dedication of scarce budget resources and of overstretched and undertrained personnel to such a project is difficult at best to secure from these agencies. Without the full cooperation of each of these, this project will not reach its objectives. This will frustrate the donors as well as those at the national and local levels who hoped to benefit from improved fisheries.

In the event that such a project were initiated, the failure to reach its objectives would have two ramifications. First, it would lead donors to reconsider the effectiveness of much-needed investments. Second, it would leave those who might have benefited from the project with continued reduced conditions, including decimated fishing stocks and increased venues for the informal-sector activities regarding sturgeon.⁷

Neither of these ramifications contributes to positive relations between affected stakeholders and the international and bilateral donor community. Further, such social and environmental projects undertaken by both governments and multinational corporations can have negative effects if the multiple stakeholders' concerns are not addressed—including a loss of credibility, a loss of domestic support, and increased opportunities for those factions opposed to their presence to further their own causes at the expense of bilateral and international

organizations, and well-intentioned multinational corporations. These circumstances can continue to exacerbate already poor environmental conditions and contribute to a downward spiral in investment conditions.

Poor Environmental Conditions Equal a Poor Climate for Investment

On paper, the Soviet Union possessed the globe's strictest environmental legislation, but adherence to these standards was nearly impossible. In some cases, the legislation called for pollutant levels well below what is naturally occurring. Yet according to official records, these standards were routinely met throughout the Caspian region. During the Soviet era, reports were issued from the local laboratories and then edited to reflect the government criteria, regardless of the actual conditions. The result over the long term was a severe decline in the environmental conditions in the region: high levels of pollution creating a poor quality of life, and an unfavorable investment climate. Poor environmental conditions fail to attract international investment due to a variety of factors, including broad public health concerns, difficulty in recruiting staff to relocate to affected areas, and concerns about the sustainability of investments.⁸

The historical legacy of industrial pollution in the Caspian region has affected the health of the coastal zone residents. Though no systematic public health studies exist that use standardized measures to gauge environmental effects on public health, the anecdotal evidence suggests a very strong linkage. In targeted areas, there have been unusually negative rates of low birth weights, high infant mortality, diseases of the lymphatic system, increases in cancer, and high levels of heavy metals in tissues of coastal zone residents.⁹ Though these illnesses may be caused

by a wide variety of factors, many regional coastal zone residents believe that the decline in available health care following the end of the Soviet Union, in combination with exposure to poor environmental conditions, are responsible for these concerns.¹⁰ Although environmental concerns were not a high priority, the decline in public health ranked as one of the highest concerns for stakeholders in the Caspian region.

Potential investors from the United States and abroad will certainly consider these factors before investing significantly in the region. The lack of investment in the region, resulting from poor public health and high levels of pollution, can lead to economic stagnation and political instability resulting from social dislocation. Industries that are commonly associated with environmental degradation may also be wary of investment in the region because of the possibility of the public linking them to poor environmental conditions, regardless of the historical legacy preceding them. Though this may be a tenuous linkage, it is critical to recognize that the population of the Caspian region has been indoctrinated that multinational corporations are predatory beasts, sapping the nation's beneficial natural resources and leaving environmental destruction in their wake. This Marxist perspective is believed by many in the region. As public health declines, these corporate interests become an easy target for disgruntled citizens.

Stifled Public Opinion Can Lead to the Vilification of U.S. Interests

The need for international investment in multiple sectors of the former Soviet Caspian states has been a driving motivation for U.S. and international involvement in the region. Rich energy resources, the geopolitical significance of the region, and support for

foundling democratization all drive U.S. interests there. However, the lack of a free press, the extreme concentration of power in the executive branch of government, rampant corruption, and a legacy of environmental degradation threaten those interests. Despite initial hopes, democracy has failed to thrive and has barely begun to take root in the region. Political dissension has continued to be largely silenced, and though a select elite enjoy the benefit of the natural wealth of these countries, a majority of the population is struggling to survive in what many in the United States consider postapocalyptic conditions. Though the elite benefit immeasurably from the status quo, those who are disenfranchised are open to influences that might seek to vilify the United States through our interest there.

Those factions opposed to U.S. presence in the Caspian region point to the government elites as U.S. puppets, and to the United States-based multinational corporations that maintaining the status quo, oppressing the majority for their own economic and geopolitical benefit. These machinations are neither new nor unheard of in the Caspian region. Prior to the turn of the previous century, European powers vied for power and influence in the Caucasus and Central Asian regions in a quest to control transport routes and access to resources. The Great Game revisited could certainly exemplify the struggle for power and influence in the region. Yet unlike the historic struggle between spheres of influence, this time human rights, environmental health, and transparency are all factors. The citizens of these nations expect change, and if circumstances only deteriorate, their disappointment may be fueled from a variety of sources.

One only need examine the civil strife in Afghanistan and the extremist camps in the Caucasus to recognize the influence of anti-American factions and the potential for

mischievous in the Caspian basin. The natural resources that attract U.S. investment also provide fodder for groups seeking to discredit American interests in the region. When citizens perceive a lack of promised democratization and development, a vacuum of influence is created. Civil society will not emerge to benefit the development of democracy. Instead, people will seek solace in a belief system that fosters animosity toward those perceived to be supporting the oppressive elite at the peril of those who do not take steps to address these concerns.

What Should Be Done?

Democracy must have a basis of civil society to survive. However, the United States has learned that forcing governments to accept a fully democratic system before civil society emerges is also a fruitless endeavor. The U.S. government generally accepts that self-rule is an ideal but one that must emerge at its own pace, as witnessed in post-September 11, 2001 Afghanistan and Iraq. Support for democratic regimes is an accepted international norm, yet imposing them is not.

Moreover, multinational corporations are wary of interfering in the domestic politics of their host nations. Historically, this type of interference had negative repercussions for U.S. interests, as witnessed in Iran before its revolution. Yet these firms recognize that failure to provide social and environmental benefits for the communities where they are active can result in a public relations quagmire, as in Nigeria. Although the Caspian basin is in a very different situation from Nigeria, steps can be taken to increase the acceptance of democratic norms while benefiting the public reputation of U.S. interests in the Caspian. These involve improving relations in the region, advancing the institutional development of the countries, and incorporating the concerns of

affected stakeholder groups. Taking these actions could create an insulating barrier of regional goodwill to buffer U.S. interests in the region from negative social forces.

Three steps must be taken by the United States and U.S. interests in the Caspian basin to incorporate stakeholders' concerns in the region, while demonstrating the benefit of democratic norms:

1. Encourage intersectoral and regional coordination of linked ministries, agencies, and interests and insist on bureaucratic accountability and transparency.
2. Support regional organizations that do this, through economic and political means.
3. Demonstrate democratic norms by incorporating multiple stakeholder concerns, opinions, and perceptions into project plans wherever and whenever possible.

These steps will encourage positive relations in the region, rather than reinforcing the outdated stereotype that multinational corporations are only interested in short-term gains at the expense of long-term problems. Thus, taking these steps will create a notable improvement in local, national, and regional support for multinational corporations' activities and U.S. interests in the region, and a decline in the propensity of stakeholders to vilify these interests, because the legitimate concerns of those affected will be specifically considered.

By way of example, it is useful to consider two separate cases of international organizations and multinational corporate interests that have taken strides to take these three steps. The results have been quite promising, but these efforts will require long-term monitoring to effectively gauge their outcome.

The first example is the Caspian Environment Program, discussed above. The CEP took coordinated steps to include a stakeholder analysis during its initial phase to empirically gauge public opinion about specific environmental concerns. A broad array of stakeholders was included in this analysis, and the findings informed the direction of the second phase of the project.

The second example is the Baku–Tbilisi–Ceyhan pipeline project. This project has been precariously supported throughout the past decade, and now that it is under construction, the concerns of stakeholders have emerged. Though initial stakeholder analysis was conducted during the “Environmental and Social Impact Assessment” phase, some unfortunate wording by corporate leaders, combined with international NGOs’ politicization of pipeline construction, resulted in the increasing polarization of stakeholders in the region. As a result of this, multiple stakeholder forums were held to further weight stakeholder concerns and allow a dialogue between the parties.

In both the CEP and pipeline cases, stakeholder concerns have influenced policy directions and have provided a means of legitimate input leading involved parties to adhere to democratic norms. Let us examine each in turn.

The CEP Multistakeholder Inclusion

During its initial phase, between 1998 and 2002, the CEP broke new ground in a variety of ways. As was discussed above, it remains the only international organization in the region with ministerial-level ties in all five Caspian countries. The CEP set out to increase the effectiveness of its program building largely on the lessons learned from the Black Sea Environment Program and South China Sea Environment Program, as

well as other regional sea programs.

The CEP’s leaders were keenly aware of the need to work within the existing government structures. Transparency was prioritized whenever possible, and strict accountability was ensured. They did not attempt to change the government structures or rearrange the sectoral responsibilities, but they employed national government officials to act as ministerial and governmental intersectoral coordinating agents. These agents were provided with a salary by the CEP and were responsible for increasing the bureaucratic transparency of Caspian-related environmental concerns in their nations by building relations between previously guarded ministries and agencies. All proceedings of meetings were made public via the CEP web site, and transparency was encouraged as local media outlets were contacted regarding activities. Public participation was strongly encouraged in activities, including employing a public participation adviser in each country, who was responsible for keeping the public informed of CEP activities and building relationships with local groups interested in the Caspian environment. Further, a wide array of reports, meeting minutes, and other information were made widely available on the CEP web site for all interested parties.

In the meantime, the governments of the region’s countries were lobbied by national and international organizations to support the CEP as much as possible. Though the CEP was aware of the sectoral challenges it faced, it built relations with national, regional, and international organizations that supported intersectoral coordination and stakeholder inclusion in the region. This includes organizations of petroleum companies’ environmental health and safety managers, the World Health Organization, the United Nations Food and Agriculture Organization, the World Bank, and bilateral and other unilateral donor agencies. These

linkages allowed the CEP to gain some degree of leverage in the region that otherwise would not have been possible. In addition, the linkages allowed for coordinated activities and reduced the redundancy of efforts in the region. Despite the challenges facing the Caspian region, the presence of these organizations has improved conditions.

The CEP has worked in coordination with the intersectoral agents and other organizations in the region to build a regional environment program, targeting the needs of the region and including stakeholders' concerns. The Regional Stakeholder Analysis (SHA) for the CEP was undertaken in the summer of 2001. At this time, the CEP had nearly concluded the Transboundary Diagnostic Analysis (TDA), which measured environmental concerns in the Caspian waters by relying heavily on the physical sciences. Further, the TDA examined issues that were identified by CEP members assigned by national governments. Mainly, these government representatives were part of the environment, natural resource, or ecology ministries. They were trained as physical scientists and, with the exception of the Iranian representatives, were very rigid in their thinking regarding ministerial boundaries.

Throughout the process, the TDA was guided by consultants with a physical science background and was directed by some unusually forward-thinking UNDP staff members who recognized that the inclusion of stakeholder concerns would be paramount for addressing the shared environmental concerns in the region. Therefore, the SHA was commissioned to determine if the issues identified by the specialists were also the concerns of the stakeholders.

Stakeholders are traditionally those who are affected by environmental issues and have minimal input into the process. These include coastal zone residents, locally based NGOs, future generations (e.g., students),

educators, public health care providers, fishermen, nature park managers, and members of the scientific community.

For the CEP's SHA, the notion of stakeholders was expanded from the standard focus, given the level of government permeation into the social structures of the region. The rigid disciplinary boundaries between government sectors, and the lack of coordination and communication between these sectors, warranted including these groups as well. Therefore, the regional stakeholder analysis also included environmental ministries, foreign affairs ministries, economic ministries, agriculture and fishing ministries, energy ministries, regional government, municipal government, and state-owned industries. To complete the inclusion of those who would be affected by or contribute to environmental concerns in the region, other stakeholder groups were included as well, such as private industry, multinational corporations (specifically oil companies), and farming and fishing industries and their supporting industries.

A survey was developed for the CEP's SHA to determine stakeholder concerns, perceptions, and level of agreement with experts, focusing on the eight major perceived problems and issues identified by these experts.¹¹ All stakeholder groups were polled in all the Caspian countries by local public participation advisers and by intersectoral coordinating agents working for the CEP. The findings revealed that stakeholder groups rated some concerns as much higher than the experts, whereas others that the experts believed to be the most prominent were ranked far lower than expected. In addition, under the direction of the UNDP officers, areas of potential conflict over resources were identified. These areas were tested for the degree of potential conflict, and it was discovered that some of the initial expert per-

ceptions were not supported by the empirical data.

In one case, it was expected that NGOs and coastal zone residents would be opposed to the presence of the multinational corporations. This was expected because there had been very vocal pockets of concern, which were especially skilled at using the media to make their opinions known. Rather, coastal zone residents and NGOs were actually more concerned about the decline in certain fisheries, as well as poor public health conditions. Despite a vocal minority touting one overstated concern, the SHA showed that there were other areas of more immediate concern for affected stakeholder groups.

In another case, an unanticipated potential conflict was identified. When asked the reason for a decline in certain fisheries, the fishermen's stakeholder group, agriculture and fishing ministries, and their supporting industries blamed the presence of the multinational corporations and the energy ministries for polluting the waters. When polled, the multinational corporations and energy ministries blamed the decline in certain fisheries on the fishermen for overfishing, and the agriculture and fishing ministries for failure to continue support for Caspian fisheries. Though it was anticipated that this might be a slight concern of these groups, the SHA found that the level of animosity was much higher than expected.

As a result of both these cases, appropriate steps have been taken by the CEP and its partner organizations to address these concerns, or lack thereof, before they become exacerbated by possibly worsening conditions. The steps that are being taken favor concrete action, realistic objectives, and stakeholder consultation and inclusion. It is expected that these and other actions informed by the SHA will help the regional stakeholders to meet their needs, address

their concerns, and include stakeholders in the management of the Caspian environment.

Future stakeholder analysis in the region can gauge the effects of these projects on the regional stakeholders. It is anticipated that as the CEP moves into its second phase, there will be mechanisms to increase stakeholder involvement and informational outreach campaigns focusing on giving all stakeholders a voice in the management of resources on which their livelihood depends.

The Baku–Tbilisi–Ceyhan Multistakeholder Forum

The key challenge to Caspian energy resource development is clearly the issue of transportation. All operational routes that transport major amounts of oil today flow through Russia, as designed by the Soviet Union. This gives Russia an overwhelming amount of influence over the other Caspian states' ability to develop their natural resources. The diversification of routes has been a decade-long quest of the U.S. government, and it continues today. The support for the Baku–Supsa early oil pipeline established sound relationships among the governments of Baku, Tbilisi, and Washington. Opening the East–West energy corridor will allow the former Soviet states to develop their economies and will further diversify transportation routes throughout the region. The most notable of these is the Baku–Tbilisi–Ceyhan (BTC) pipeline route.

Two pipelines will leave from Sangachal port just south of Baku, climb over the Caucasus mountain range toward Tbilisi, turn south through the Borjomi valley, and then head for Erzurum in eastern Turkey before parting ways. The natural gas pipeline will terminate there, and the major pipeline carrying oil will continue south to the Mediterranean Turkish port of Ceyhan. These

pipelines will straddle areas with high levels of tectonic activities, diverse ecosystems, cultural heritage sites, and pristine valleys. The threat of a natural disaster wreaking havoc on the pipeline is relatively high. The proximity to enclaves with significant civil unrest increases the chances that the pipeline will be breached. However, structural adjustments are made to prevent earthquake damages, and ongoing security monitoring is incorporated into the building plans.¹²

The former British Petroleum, now known officially as simply BP, has spearheaded development of this pipeline and the pipeline route. The BTC pipeline has been something of a political football bandied about since the collapse of the Soviet Union. The cost of construction, the concerns over the political stability of the region, concerns about the spurious need to develop the pipeline route at all, and responsibility for financing have caused the project to be built in fits and starts. Currently, the consortium includes state-owned oil companies in Azerbaijan and Turkey, as well as other partners. The financing for the project has come from a wide range of sources.

During the initial phase preceding construction, BP hired the firm Environmental Resource Management (ERM) to conduct the Environmental and Social Impact Assessment (ESIA) for the pipeline, as per company policy. The ERM included a stakeholder analysis in the assessment, and it reported that though residents living along the pipeline route were concerned about environmental issues, they were far more concerned about the need for jobs and a stronger economy. In addition, the ESIA of the ERM was released to the public via the web page for the BTC project.¹³

As is usually the case with projects of this magnitude, a portion is covered by members of the sponsoring group, while the rest

is in the form of loans. These loans would be secured by international lending agents, including the International Finance Corporation (IFC)¹⁴ and the European Bank for Reconstruction and Development (EBRD). In November 1998, Lord John Brown made the unfortunate comment that “the BTC/ACT [*sic*] project would not be possible unless ‘free public money’ was offered by government to build the line,”¹⁵ in reference to support for these loans from the IFC and EBRD. As a result of this statement, and concerns regarding the environmental impact of both the pipeline construction and the eventual release of carbon dioxide into the air, international environmental NGOs (INGOs) targeted the IFC and EBRD in a campaign to stop the support for this project. As part of their campaign, they also sent specialists on a fact-finding mission along the pipeline route.

A major concern of the INGO fact-finding mission was that stakeholders did not feel that they had been adequately informed of the decision and that their input had not been valued in the decision-making process. Further, they were disappointed in the economic conditions and had been hopeful that the presence of the pipeline would significantly improve their way of life.¹⁶ The mission of these organizations is to improve the environment of the planet, an admirable cause. Yet the cost of doing this in areas such as those surrounding the BTC pipeline may be adverse to their initial intentions. The economic conditions of these countries are grim, causing reliance on natural resources for hard money to be inevitable. Whether BP or State Oil Company Azerbaijan (SOCAR) are ultimately responsible for the development of these resources, the oil is coming out. BP has more incentive and ability to positively influence regional environmental conditions than SOCAR, and for global public relations alone will make an effort to

do this.

Nonetheless, the issues of stakeholder inclusion remain. The INGOs launched their campaign to stop public money from supporting a project that they viewed as deleterious to the environmental conditions of the Caucasus. Through vigorous lobbying of the EBRD and IFC, they delayed the official decision to support the project. The EBRD and IFC contracted consultants to proceed with six multiple stakeholder forums. Two were held in each BTC country along the pipeline route, and the EBRD and IFC funded stakeholder travel costs to attend these meetings. These meetings were attended by BTC officials, IFC and EBRD representatives, stakeholders living along the pipeline routes, the media, and local and national government officials.

Those facilitating the stakeholder forums conferred with multiple stakeholder groups in preparation for these meetings and found that their concerns were largely related to economic conditions. These economic conditions are endemic throughout the former Soviet Union, and unfortunately they cannot be solved easily. Those groups that met with the facilitators were far less concerned about environmental problems, though they were aware of the possibility of environmental degradation in the event of a pipeline rupture.

During these meetings, each side was given an opportunity to express its concerns, to address the other stakeholders, and to hear the positions of others. These meetings were largely beneficial and sustained the findings of both previous stakeholder analyses. There were concerns regarding compensation and environmental conditions, but as a whole the residents most affected by the pipeline were concerned about economic conditions.

These meetings gave those directly affected by the pipeline a chance to voice their concerns to the institutions responsible

for the development of the project. Each forum was an experience in freedom of expression of differences, with the goal of recognizing the importance of stakeholder inclusion in projects. The democratic process that these meetings facilitated has now set a precedent for communication among stakeholder groups. Though the initial intention of these meetings was to provide the IFC and the EBRD with an opportunity to weigh the concerns of the stakeholders, the secondary impact of these meetings was increased exposure to the functioning of democratic norms in the region.

Though the IFC's and EBRD's decisions have not been made to date, the experience of the multistakeholder forums and the opportunity for BTC officials to meet in a face-to-face, proactive way with stakeholders will certainly influence the pipeline project's development and will also encourage more positive relations among these groups. Intersectoral cooperation may also be increased, as economic ministries, defense ministries, energy ministries, transport ministries, and environmental ministries in each country coordinate activities through the pipeline project. The BTC pipeline project was not necessarily intended to increase democratization in this region, per se, but the ramifications of these concerns may well have an impact in that direction. This is not to say that there will be no more social discord regarding the pipelines in this region. It would be foolhardy to suggest this. However, a mechanism to address conflicting concerns has emerged and will continue to thrive as long as steps are taken to ensure that this key principle of democracy is nurtured.

In the CEP case, steps were taken to minimize potential conflicts before their emergence. In the BTC case, the spark of conflict arose, in large part fanned by external actors. In both cases, circumstances that could have become explosive have been

quelled by decisive action to incorporate the interests and perceptions of stakeholder groups and to develop mechanisms that will allow these groups to continue to provide input. These groups have gone from being disassociated victims of circumstance to proactive participants in the management of the natural resources of their homelands.

In this region, the U.S. government should seriously consider formal support for projects that encourage stakeholder inclusion and involvement. The populations of the Caspian basin have been subjected to conditions that minimize their role in environmental management. They deserve to take ownership of their countries, and they will only be able to do this with the support of forces that can influence the direction of transitions. The Caspian basin is at a critical juncture. Forces favoring anti-American sentiments are nascent, and if allowed to thrive can severely destabilize U.S. interests and the geopolitics of the Caucasus and Central Asia.

WHAT WILL HAPPEN IF WE DO NOT INCLUDE STAKEHOLDERS?

Failure to account for multiple stakeholder interest in the Caspian basin resource management could lead to cascading negative effects instigated by those with nefarious interests in this critical geopolitical region as a worst-case scenario. Even in the most innocuous scenario, the misdirection of funds and redundancy of efforts is bound to lead to frustration for all parties involved in natural resource management and environmental stewardship. These two extremes are both realistic and may be simultaneously probable. The United States has an active interest in incorporating stakeholders into all facets of its involvement in the region to establish norms supporting democratic systems. Failure to do this may lead to an intractable situation that will be costly in money and lives.

Lack of inclusive stakeholder involvement in the management of Caspian resources can lead to misdirection of funds, due to corruption or to lack of sectoral cooperation. In the event that corruption is to blame, the use of U.S. funds to support corrupt activities is not acceptable, and can be misconstrued as supporting the status quo of endemic abuses of power. If funds are misdirected because of the lack of sectoral cooperation, the ramification is to strengthen the sense of division and entitlement within these patronage-based bureaucracies. The ramifications are that the objectives of the projects being funded will not be reached. Simultaneously, progress toward these objectives will not be demonstrated, so future funding will be jeopardized. This unfortunate scenario is the least dire of those that could occur.

If these environmental stewardship projects are not able to meet their objectives, it is also probable that environmental degradation will continue. As environmental conditions worsen, economic conditions will also falter. These economic conditions will affect the stakeholders who are closest to the environment most significantly as local jobs are lost, and their reliance on their immediate environment for subsistence increases. This in turn will affect public health levels in the region, and the opinions of these stakeholders regarding market systems and the trustworthiness of those who advocate them.

The loss of trust in both market systems and the actors who are perceived to be supporting a market-based democracy will certainly focus on the United States, which has been a key actor throughout the Caspian region preaching the benefits of market-based democracy. Unfortunately, if the United States is linked to environmental degradation, through a decline in funding, economic downturn, and/or other direct effects on stakeholders, the reputation of the

United States will be vulnerable to those who do not favor the presence of U.S. interests in the region. These forces who are opposed to the U.S. interests may have a religious or an ideological basis for their concerns, and a downturn in stakeholder support for U.S. interests will create a gap where these groups can seek to gain influence.

In the event that these groups opposed to the United States gain influence in the region, they may advocate violent and subversive means to further discredit the United States and U.S. interests in the eyes of the stakeholder communities. Should this happen, the impact on the United States would be quite severe. A conceivable attack on U.S.-corporate-owned oil installations in Caspian waters, similar to other attacks in the Middle East, is certainly possible. And though steps have been taken to guard the BTC pipeline, an attack that could be catastrophic as well as politically destabilizing is plausible.

If such attacks were to occur, the ramifications for U.S. interests in the region would be very serious. Would the United States respond with a military presence or military action? Could governments that are currently friendly to the United States remain functional? Would the United States support these governments if they were to take harsh punitive measures against the factions responsible for these attacks? The answers to these questions will largely guide the legitimacy of U.S. interests and ideological influence in the region. The Caspian region is far too important for its geopolitical location, its natural resources, and its ideological transition for the United States to lose influence there. The accumulation of these interests has taken years to establish and sizable investments in the political, economic, and diplomatic spheres.

If the region were to become destabilized, due to circumstances that could have been avoided, the loss would be far more

costly than the steps that can be taken to avoid these circumstances. The process of including stakeholders in natural resource management is a small price to pay for the benefits that it creates and the problems that it avoids.

NOTES

¹ “Stakeholders” in this paper refer to the traditional groups who are affected by environmental degradation, as well as those contributing to environmental degradation. In addition, because of the lack of cooperation between government agencies and ministries, and the effects that the policies of one group have on another, as well as the level of social and economic influence of the government agencies, these groups are also considered stakeholders throughout this discussion.

² Throughout, the focus will be mainly upon the former Soviet Caspian littoral countries: Azerbaijan, Kazakhstan, Russia, and Turkmenistan. Although Iran is included in some examples, it is largely not included here.

³ “Sectoral” refers to various sectors of the national governments, e.g., the energy sector, the agriculture and fishing sector, and the ecological sector. This will be further elucidated in subsequent sections.

⁴ Henri Dumont, “Ecocide in the Caspian,” *Nature* 377, no. 6551 (1995): 673–4.

⁵ See www.caspianenvironment.org.

⁶ See www.worldbank.org/transitionnewsletter/julaug98/agenda.htm.

⁷ This informal sector refers to the activities that support the illegal national and international trade in sturgeon and caviar.

⁸ For a detailed discussion of these linkages, see Andrew Price-Smith, *The Health of Nations: Infectious Disease, Environmental Change, and Their Effects on National Security and Development* (Cambridge, Mass.: MIT Press, 2002).

⁹ The effects of poor environmental conditions on public health are detailed in the *Transboundary Diagnostic Analysis* for the Caspian Environment Program, available through the CEP’s Web site (www.caspianenvironment.org/).

¹⁰ These concerns were found throughout the Caspian Coastal Zone Residents during the CEP Regional Stakeholder Analysis, which is on file with the CEP Program Coordinating Unit.

¹¹ These eight major perceived problems and

issues were: decline in certain fish stocks; degradation of the coastal landscape; threats to biodiversity; decline in overall environmental quality; decline in human health; damage to coastal infrastructure and amenities; potential damage from oil and gas activities; and threats from invasive, exotic species of living organisms.

¹² Similar concerns were raised about the vulnerability of the Trans-Alaskan pipeline given the propensity toward earthquakes in that range. However, in the thirty-plus years of pipeline operation, the only breach was caused by an inebriated resident shooting a rifle into the pipeline. Alternatively, the practice of hot tapping pipelines to take oil is prevalent in underdeveloped areas of oil-producing nations, and the chance for civil unrest to target the pipeline is a serious concern.

¹³ See www.caspiandevlopmentandexport.com/ASP/Home.asp.

¹⁴ The IFC is the private investment branch of the World Bank.

¹⁵ This is from p. 63 of the Friends of the Earth Publication “Some Common Concerns,” which is available at www.bakuceyhan.org.uk/concerns.pdf.

¹⁶ See the Fact-Finding Mission Summaries for Azerbaijan and Georgia from May 2003; available at www.bakuceyhan.org.uk/concerns.pdf and www.foe.org/camps/intl/institutions/AzFFM03.pdf.