

The Role of the Caspian Energy Game in Central Asian History

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Abstract

One significant geopolitical consequence of the demise of the Soviet Union was the rise of intense political and commercial competition for control over the vast energy resources of the newly independent and vulnerable states of the Caucasus and Central Asia. Following the collapse of Communism, the ex-Soviet republics of Central Asia, particularly Azerbaijan and Kazakhstan, have been trying to exploit their natural resources, since they consider oil to be the prime means of securing their economic and political independence. This article is an independent analysis of the main issues facing the oil and gas sector developments in the countries of the former Soviet Union gifted with major petroleum resources: Kazakhstan, Turkmenistan, Uzbekistan and Azerbaijan in Transcaucasia. Will Caspian oil redraw the global energy map? What is the importance of the Caspian oil for the world market? And what is Caspian energy potential in Central Asian history?

კასპიის ენერგო-თამაშის მნიშვნელობა ცენტრალური აზიის ისტორიაში

სავაშ გენც
სტამბოლის ფათიჰის უნივერსიტეტი

საბჭოთა კავშირის დაშლის ერთ-ერთი მთავარი გეოპოლიტიკური მნიშვნელობის შედეგი იყო კავკასიისა და ცენტრალური აზიის ახლად დამოუკიდებელ და დაუცველ სახელმწიფოებში, ენერგო რესურსების კონტროლზე პოლიტიკური და კომერციული კონკურენციის ზრდა. კომუნისტური წყობის რღვევის შემდეგ, ცენტრალური აზიის, ყოფილი საბჭოთა კავშირის ქვეყნები, განსაკუთრებით აზერბაიჯანი და ყაზახეთი, შეეცადნენ თავიანთი ენერგო რესურსები მაქსიმალურად გამოეყენებინათ, რამდენადაც ნავთობში ეკონომიკური და პოლიტიკური უსაფრთხოების გარანტიას ხედავდნენ. ნაშრომი წარმოადგენს დამოუკიდებელ კვლევას ყოფილი საბჭოთა კავშირის, ნავთობით მდიდარ ქვეყნებში გაზისა და ნავთობის სფეროში მიმდინარე მოვლენების განვითარების შესახებ: ყაზახეთი, თურქმენეთი, უზბეკეთი და აზერბაიჯანი. ძირითადი საკითხები, რასაც ნაშრომი განიხილავს არის თუ რა ცვლილებებს შეიტანს კასპიის ნავთობი გლობალურ ენერგო რუკაზე? რამდენად მნიშვნელოვანია კასპიის ნავთობი მსოფლიო ბაზრისთვის და რა პოტენციალი გააჩნია კასპიის ენერგო რესურსს ცენტრალური აზიის ისტორიაში?

The Central Asian-Caspian region maintains some of the world's richest energy resources. The collapse of the Soviet Union resulted in the emergence of eight independent states in Central Eurasia and shifted control of the Caspian Sea basin from the Soviet Union and Iran to Russia, Iran, Azerbaijan, Kazakhstan and Turkmenistan. The oil and natural gas reserves of the five Caspian Sea states make up about 14.6 percent of the world's total proven oil reserves, and almost 50 percent of the world's total proven natural gas reserves (British Petroleum, 2002).

The Caspian region is reemerging on the world's energy scene. Commercial oil output began in Baku in the mid-19th century, making Transcaucasia one of the world's first oil provinces. In Central Asia, on the other side of the Caspian Sea, commercial production began in the early part of the 20th century.

This article is an independent analysis of the main issues facing the oil and gas sector developments in countries of the former Soviet Union gifted with major petroleum resources: Kazakhstan, Turkmenistan and Uzbekistan and Azerbaijan in Transcaucasia. Will Caspian oil redraw the global energy map? What is the importance of Caspian Oil for the World Market?

Most of the Caspian littoral states are inclined to entertain quite positive views of the region's potential oil and gas production, and rarely compare the Caspian Sea to "a different Persian Gulf." For the new independent states of the Caspian Sea, Azerbaijan, Kazakhstan and Turkmenistan, energy resources presented the best chance for sovereignty after the dissolution of the Soviet Union.

The collapse of the Soviet Union and the end of the Cold War led to an impressive change in the landscape of Central Asian geopolitics. The strategic geopolitical significance of Central Asia and the Caspian Sea region are evident.

Established oil reserves are pegged at between 15 billion and 31 billion barrels- about 2.7 percent of total world proven oil reserves. The Caspian Sea region's natural gas potential is more important than its oil potential. Turkmenistan holds large reserves of natural gas, but its distance from key consumer markets may mean those reserves will be commercially difficult to develop. Confirmed natural gas resources of the Central Asian States are 230 to 360 trillion cubic feet represent about 7 percent of total world proven gas reserves (Emerson, 2000, pp. 174, 178, 184).

Proven Oil Reserves (billion barrels)

| | Proven Oil Reserves | | | Total | |
|--------------------------|---------------------|------|--------------|-------|-------|
| | Low | High | Possible Low | High | |
| Azerbaijan | 7.0 | 12.5 | 32.0 | 39.0 | 218.8 |
| Iran | 0.1 | 0.1 | 15.0 | 15.1 | 15.1 |
| Kazakhstan | 9.0 | 17.6 | 92.0 | 41.0 | 49.6 |
| Russia | 0.3 | 0.3 | 7.0 | 7.3 | 7.3 |
| Turkmenistan | 0.5 | 1.7 | 38.0 | 32.5 | 33.7 |
| Uzbekistan | 0.3 | 0.6 | 2.0 | 32.3 | 32.6 |
| Total Caspian Sea Region | 17.2 | 32.8 | 186.0 | 167.2 | 182.8 |

Source: US Energy Information Administration

Table 1

Natural Gas Production (trillion cubic feet per annum)

| | 1992 | 2000 | 2003 | 2010 |
|--------------------------|------|------|------|------|
| Azerbaijan | 0.28 | 0.20 | 0.20 | 0.60 |
| Kazakhstan | 0.29 | 0.31 | 0.49 | 1.24 |
| Turkmenistan | 2.02 | 1.89 | 1.89 | 4.24 |
| Uzbekistan | 1.51 | 1.99 | 2.04 | 3.53 |
| Total Caspian Sea Region | 4.10 | 4.39 | 4.62 | 9.61 |

Source: US Energy Information Administration

The expansion of oil and gas resources in the Caspian region is particularly important for the development of Central Asian and Transcaucasia economies. All of the Caspian Basin states have weak economies and view oil and gas revenues as dangerous not only to their welfare but in some respects, to their viability as nation-states. But there are also undeniable arguments against a choice made in haste.

Investments in the oil and gas sector, including the transportation infrastructure of neighboring countries, could supply significant profits for the region's governments and stimulate investment in other economic sectors. Economic development moved by invest-

ment in the oil and gas industry helps guarantee the financial sovereignty of the Central Asian and Transcaucasia states. Foreign investors not only transport financial resources; they can also help bring up-to-date technology to the local industry, together with environmentally sound production methods, as well as teach modern management techniques.

Caspian Sea region oil and gas has a number of markets now and a wider diversity of possible markets. These include nations trying to meet their economies' need for energy and those that also wish to decrease their dependence on Persian Gulf energy.

Table 2
Potential Market for Caspian Oil by 2010. In Mb/d

| Country | Low Estimate | High Estimate |
|----------|--------------|---------------|
| Russia | 80 | 80 |
| Ukraine | 100 | 200 |
| Romania | 160 | 380 |
| Bulgaria | 200 | 200 |
| Turkey | 226 | 226 |
| Iran | 300 | 400 |
| Total | 1066 | 1486 |

Source: Planecon

The largely new energy resources of the Caspian region present new opportunities for world oil markets and the region. Since the early 1990s, the countries of the Caspian Sea region and Central Asia (Azerbaijan, Kazakhstan, Turkmenistan, Uzbekistan) have estimated to become important players in the international oil and gas trade. The massive distance of Central Asian and Caucasus Oil and Gas reserves from the world's major energy consuming regions requires a significant financial investment to bring them to market.

As the Caspian is a land-locked region, and there is only a small local need for oil and gas, there is therefore a need to build long distance pipelines to Western countries that are dependent on energy imports and see the Caspian basin as a potentially new, non-OPEC resource of oil and natural gas. In this view, managing Caspian ener-

gy resources and pipelines in a region where local and external actors are competing for control, and pursuing diverse agendas will be essential and is linked to series of political and economic factors.

In a regional context, pipeline politics have also an important impact on the interests and strategies of the states occupied and shape their relations with each other. Energy resources in the Caspian Sea area are bound to attract the interest of many powers and actors. The U.S., Europe, Russia, Turkey, Iran as well as China, India, Pakistan and Japan have an interest in economic and political developments in the area and their attention will focus on the market dynamics of energy provisions. China, an extra power immediate to Central Eurasia, could become a powerful force in the region in the coming years. This means it has a significant interest in the import of the region's oil and gas resources. The European Union has its own motives for gaining influence in Central Eurasia and the Caspian Sea region. Because of its geographic closeness, the EU worries that instability in the region might also affect Europe.

The actual power struggle for control over the Caspian hydrocarbon resources has been named the "New Great Game" which refers to the old one. This time there are more actors concerned and the forced for victory is Caspian energy. Some analysts says that the New Great Game consists of an old-fashioned, zero-sum competition between different states, in which direct control over the resources is the policy aim of the states concerned. But for a single country, making decisions regarding hydrocarbon export routes seems very difficult (Cohen, 2002).

The lack of adequate export infrastructure is probably the most difficult problem facing investors in the oil and gas sectors of Central Asia and Transcaucasia. The construction of new export pipelines has become a priority.

"Pipeline Politics" consists of two diverse, but consistent subjects. First, there is an effort for acquisition control over the energy resources of the Caspian. Due to some indefiniteness, particularly the unsure legal status of the Caspian Sea, the control over its resources has been complicated and is in the middle of those contradictory interests of littoral states. Full comprehension of the energy potential of the Caspian region also is impeded by the unresolved legal status of the Caspian Sea. Despite a number of labors, so far only Azerbaijan, Kazakhstan, and Russia between the littoral states have reached an agreement on delineating ownership of the Sea's resources or the rights of development. In addition, interest for energy investment in

the region for several years after the surge of production-sharing agreements during the early and mid 1990s. Some searching efforts have had unacceptable results. Reduced exploration, from less investment, reduced the rate of discovery, with an extra hopeless effect. Despite the obstacles discussed, energy expansion in the Caspian Sea region is proceeding and is likely to proceed further given the extensively apparent prospects for very large energy resources in the region. The pace of progress, however, may be less rapid than might otherwise be the situation. Secondly, pipeline politics comprises problems concerning the development and export of these resources. These two problems are closely connected.

The oil and gas pipeline systems of Central Asia and Transcaucasia were originally intended and built to serve the needs of the Soviet Union. As such, they often cross the limits of its successor states. All gas and oil export pipelines inherent from the Soviet period pass through Russia. Russia's oil and gas pipeline operators, facing capacity constraints due to lack of maintenance and other technical problems, have capped exports from the region. In the case of gas, there is also a certain reluctance to share markets.

If the Caspian Region and Central Asia had not been landlocked or had generously available transit routes, the region would be one of the world's most encouraging oil provinces (Skagen). The United States has approved the great oil and natural gas potential of Central Eurasia and the Caspian Sea region (Ian, 1998, pp. 27-35). The USA created, in 1996, a coalition with Turkey which could be explained by being pressing by Turkish. For the USA, it was about trying to prevent Iran from becoming included in the infrastructure network, and they also wanted to strengthen the other middle power in the region, namely the NATO ally Turkey. The USA needs Turkey, with a view of the middle east, for armed forces bases. A pipeline from Baku to Ceyhan in this respect offered its services from the American view to make use of this port better. However, it is clear that the Baku-Ceyhan route promoted by the United States is simply not economically viable. A creation of a bypass route from the Black Sea into Europe would still be more economical than a direct Baku-Ceyhan line. The United States wants this exacting export route, because it enhances American position in the region and bypasses both Russia and Iran. Apart from oil-and U.S. firms control the consortia which previously control the major oil fields of the Caspian-American national interests in the Caspian Basin are more derivative than elementary (Allison & Buskirk, 2001). The oil companies appreciate that

they are making high-cost, long-term investments; for any pipeline to be constructed, it must meet the economic difficulties of the oil companies and producing countries and cannot be forced by political motivations. Without making too many assumptions about transit fees, it is clear that the Baku-Ceyhan route promoted by the United States is just not economically feasible. The distance is cost-prohibitive and the reimbursements of Ceyhan are not more important than the costs of using other ports.



Caspian Basin countries and pipelines

Figure.1 Courtesy of the US Energy Information Administration
December 2004. From <http://www.eia.doe.gov/emeu/cabs/caspian.html>

In the Caspian region, the development of oil resources and exporting them would definitely have an enormous force on the political and security arrangement of the region. Geological and logistical difficulties in amassing big oil export volumes from Central Asia and the Caucasus region quarrel in favor of a multiparty negotiation regime, where inclusively rather than competition is encouraged. Political instability remains the biggest threat to future oil and natural gas exports from the region. Unsettled disputes in Georgia, Azerbaijan, Turkey and Russia could expand into aggressive conflicts, transforming oil or natural gas pipelines into potential targets.

Lastly, in regard to energy security for Asian actors as well as the United States, the key point is that the Persian Gulf's significance will not be mitigated by the energy resources of the Caspian. Quite, it will be diffidently, but not unimportantly, supplemented.

Effects of the Caspian region conflicts on oil and gas contribute

A little over a decade ago the Caspian region underwent a dramatic transformation when western policymakers began discussing the prospects of a trans-Caucasus pipeline that would transit what many thought to be one of the most unstable regions of the world. Azerbaijan is the only state of the region, which is both a producer and a viewpoint transit region of the Caspian oil and gas. The BTC and BTE pipeline programs involve Azerbaijan as the most important participant of the projects. But both BTC and BTE are located within 14-16 kilometers from the zone of Nagorno-Karabakh conflict. A possible resumption of the war between Armenia and Azerbaijan may risk the functioning of the pipelines. The Iranian side has also several times inferred that in the case of US strikes, Tehran will attack the Caspian deposits and regional pipelines. As well Karabakh, Azerbaijan has some other problems of independence connected with the Talishian and Lezgin minorities.

Armenia is the only state, which doesn't take part in the Caspian hydrocarbons export projects. At the same time Armenia is the only strategic ally of Russia in the region and has some Russian military bases on its territory.

Georgia is a country with several ethnic conflicts, which doesn't control a big part of its official territories and which, more than Azerbaijan, is concerned about entering a military conflict with its former autonomies. Its relations with Russia may also end with a risk to the normal functioning of the pipelines. At the same time, Tbilisi-Abkhazia and Tbilisi-South Ossetia relations have two prospects: independence of the former autonomies or a new war, initiated by Tbilisi, to regain the territories under Georgian control. Both variants will harm the stability of Georgia and security of its pipelines.

In a region burdened with conflict, the United States navigated its way through these conflicts, many of which stay unresolved, to assist these states in escaping the fate of geography and develop alternative means for reaching western energy markets.

Caspian Gas and European Energy Security

After 10 years of criticizing the Caspian-Turkey energy routes projects, Russia stopped the building of the pipelines. Russia's authoritarian control of Caspian and Central Asian gas is part of Russia's policy toward Europe. Moscow tries to add Central Asian gas resources to Russia's own gas resources in a single pull to be marketed by Russia to European countries. If successful, this policy would double the volume of natural gas reaching Europe from Russia. Concerning EU-Russia relations, the slide of the EU into overdependence on Russia cannot but influence its common foreign security policy. It will also unavoidably nudge individual west European countries, including the main consumers such as Germany, into their own economic and political views with Russia, bypassing the common foreign security policy.

Now Russian companies said that they are involved in using the BTC pipeline for the purpose of Russian oil export. In the future it may establish useful for the EU not to "get rid of Russia" in the region, but will be of interest to Moscow and occupy it in mutual energy projects. This can make Russia use its power in Armenia, Abkhazia and South Ossetia for the purpose of securing the pipelines

The EU must stop persuading everyone in the region that the main purpose of the European policy is the support of democracy, human rights protection, and freedom of speech. The real energy and security interests of Europe should be presented as important for the EU policy in the South Caucasus and everyone should know that acting against these interests is likely to be punished with real and substantial economic, financial and even political instruments. It is important for Europe to become a real geopolitical player in the region, which may become a sign for Iran, Turkmenistan and Kazakhstan that there is a force in the South Caucasus, which will use all opportunities to get their oil and gas. The EU can't do something as "an organization with limited interest in security and geopolitics" any more.

The volume of Caspian gas reserves lie on the eastern shore. All pipelines routes go from there via Russia, with the minor exception of the pipeline from Turkmenistan to Iran with the capacity of 10 to 13 billion cubic meters of gas per year. It is essential to take political action with U.S. and EU synergy to bring east Caspian gas directly to European markets.

East Asian countries also are potentially new markets for Caspian energy. Japan previously imports an important quantity of natural gas; and energy consumption in India and Pakistan is growing quickly. Possibly most important, China's proven oil and gas reserves are small compared with the present and potential size of its economy, and the recent steep increases in its oil consumption. This has led, for example, to the construction of an oil pipeline from Kazakhstan to China.

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