

CASPIA

GENESIS OF ENERGY POLITICS

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Abstract

The Central Asian region has become a scene of Great Game Rivalry after the breakup of the former Soviet Union. Looking into contemporary history of Central Asia, the Caspian Sea which is richly endowed with hydrocarbon energy resources – has played an important role in the regional development. In this context several questions arise – What are the causes for the rivalry?, What is the status of Caspian with regard to sea / ocean delimitation?, Who are the major players involved? How are the Central Asian States of the former Soviet Union responding to these rivalries? An effort has been made in this paper to examine these and related issues concerning the Caspian region.

Keywords

Caspian Sea, Legal Status, Hydrocarbon Energy Resources, Great Game, Resource Rivalry, Pipeline Politics, Global Energy Market, Energy Cooperation, Energy Balance, Geo-politics.

Caspian Energy Resources

During the Soviet era energy resources of the Caspian Sea Region were known but were not fully explored nor exploited. At that time resources of Siberia, Ural, Volga regions in Russia and resources in Azerbaijan were considered to be more significant than those in Central Asia. Moreover, inadequate investment capital, lack of modern technology, deteriorating infrastructure facilities were major causes for insufficient development of energy sector of the Soviet Union as a whole including that of the Caspian region. Hence credit has to be given to Kazakhstan, Turkmenistan and Azerbaijan to have taken greater initiatives in bringing the Caspian region in the forefront of the global energy market.

The Caspian Sea Region is richly endowed with hydrocarbon resources. The US Energy Administration reported in July 2001 that the Caspian Region possessed about 34 billion barrels of proven oil reserves and 235 billion barrels of possible oil reserves. Estimates of proven oil reserves, however, have changed over the years as explorations are still in progress. For instance, in 2006 the British Petroleum experts estimated that oil reserves could be about 47.1 billion barrels. Proven oil estimates have been estimated to be about one-fourth of that of the Middle East and much larger than 22 billion barrels of estimated reserves of the USA. Apart from oil, the Caspian Region

also has substantial quantity of natural gas reserves estimated at about 243-248 billion cubic feet as compared to about 300 billion cubic feet of natural gas in North America.

Two Central Asian States, namely, Kazakhstan and Turkmenistan share the inland Caspian Sea along with Russia, Azerbaijan and Iran. The main oil and gas fields of Kazakhstan are Tengiz, Karachagansk, Kurmangazy, Kashgan etc. The Kasgan oil field is said to be 5th largest in the world. After gaining independence Kazakhstan and Turkmenistan have made intensive efforts to undertake exploration activities to determine their energy resources. In November 2006 Turkmenistan reported that one of the fields in its region has natural gas reserves are larger than that in Russia's Shtokman gas field in the North Sea, which has created great news in the world energy market.

After the Soviet break-up, the Central Asian countries were in dire need of hard currency resources for their economic survival and oil and gas were commodities that could find easy market abroad. Equally important is the fact that several international oil companies including Chevron, Exxon, British Petroleum etc. were keen to enter the Central Asian energy sector. They were attracted to Central Asia partly because of the hype initially created by energy experts about huge reserves in the region. Some experts opined that Turkmenistan would be the 'Kuwait of the 21st Century'. While initial hype was rather exaggerated, sober estimates made subsequently did confirm that Central Asian States did possess large energy reserves, which were an additional source for meeting the energy needs of the Western countries. Kazakhstan has been able to attract more foreign investment than Turkmenistan since it is endowed with more oil resources than the latter. This is mainly because Kazakhstan has pursued policies more actively than Turkmenistan to make progress in its economic reforms.

Legal Status of Caspian

In the aftermath of the Soviet break-up, the Caspian Sea region has witnessed conflicting situations due to various factors. Firstly, while there were only two countries namely the Soviet Union and Iran sharing the Caspian Sea in the past, now there are five countries-Russia, Azerbaijan, Kazakhstan, Turkmenistan and Iran – independent and sovereign, which are sharing the Sea. This has added a new dimension to the situation. Secondly, energy resources are unevenly distributed among the littoral states. By 2005, the combined share of Russia and Iran in the Caspian region was estimated to be less than 20 percent while the other three states namely, Azerbaijan, Kazakhstan and Turkmenistan have about 80 percent of energy resources of the Caspian Sea. Thirdly, presumably arising out of this situation, Russia and Iran initially contended that the Russo-Iranian Treaty of 1921 and Soviet-Iranian Treaty of 1940 be adhered to for sharing the Caspian without dividing the sea into the national sectors. Iran even suggested that the sea be divided into five equal zones.

This was not acceptable to new members since they would be the losers. Subsequently, different proposals were made over the years—Russia proposed ‘Condominium Principle’, Azerbaijan advocated ‘Lake Variant’ and so on. There was also a proposal to divide the Sea on the ‘Middle Line Principle’.

In 1998 Russia and Iran proposed the principle of ‘Modified Middle Line Principle’ to divide the bottom of the Sea. In 2001 Azerbaijan president and the Russian deputy foreign Minister met and suggested that five littoral states should reach an agreement to divide the Sea into ‘National Sectors’. While bilateral talks and agreements have been worked out from time to time, there was no acceptable multilateral consensus of the five member states on the issue even over one and half decades after the Soviet break-up.

In view of this there was no final consensus on the legal status of the Caspian Sea, differences cropped up from time to time on the issue of ownership of oil deposits, which are particularly lying on the border zones. For instance, Azerbaijan and Turkmenistan have disputes over 3 oil fields. Turkmenistan made claim over what are called Osmen, Lhager and Altyn Asyn, which Azerbaijan called Chirag, Azeri and Sharg. In 2001 Azerbaijan even went ahead with giving contracts to an international consortium led by the British Petroleum (BP) for \$ 8-9 billion to develop Azeri-Chirag oil field. Turkmenistan called it ‘illegal’ and even wanted to take the issue to international court for arbitration. Similarly, Turkmen deputy prime minister stated that Azerbaijan’s SOCAR oil company had no right to develop Turkmenistan’s Serdar oil field which Azerbaijan called Kyapaz.

As assertion and disputes over the ownership of oil fields continued there were a few instances of threat of military conflict among contending states. In July 2001 an Iranian military boat threatened to stop exploration work being carried out by Azerbaijan at Chirag oil field. Thus oil fields have great economic significance for each Caspian state and lack of consensus among member states occasionally led to potential military conflicts giving international dimension. In 2001 there was an important development when the US leaders even said that they would render political support to Baku in case conflict arise. Russia was against any outside intervention and was against military involvement of the USA in such conflicts. The Russian leadership appealed to both Azerbaijan and Iran not to use force in solving the problem. In fact Russia and Kazakhstan also have disputes with regard to Kurmangazy oil field and Khvalynskow Oil field. But both the countries have avoided any serious confrontation and have even proposed to jointly develop some oil fields.

Thus even after one and half decades after the CAS gained independence, there was no solution in sight on the sharing of the Caspian Sea. Ongoing talks over one and half decade among the five Caspian littoral states could not produce a comprehensive agreement on delimitation of the Caspian Sea. Efforts were made by the members at bilateral levels to work out some piecemeal agreements. For instance, in the statement on 13th December 2006,

Turkmenistan's Foreign Ministry proposed high-level talks at the level of the presidents of the two countries with Azerbaijan over the division of the Caspian seabed, but only in the context of existing agreements of 1991.

Politics of Pipeline

The CAS being landlocked countries face major hurdles in exporting oil and natural gas to foreign countries. During the Soviet era this was not a problem for them since oil and natural gas produced in these former Soviet republics were transported through pipelines built by the Central planners and linked to the national pipeline network. Decisions regarding the laying of the pipeline-network were taken by the Soviet leaders in Moscow. To retain control over the energy sector, main pipeline for exporting oil and natural gas was laid through the Russian Federation. Oil and natural gas pipeline from the Central Asian countries and Azerbaijan were linked to the pipeline passing through Russia known as the 'Northern Route' and there was also a pipeline route via Trans-Caucasia known as the 'Southern Route'.

After the break-up of the Soviet Union even as the CAS became independent and sovereign, they became dependent on the Russian pipelines for exporting oil and natural gas to world markets. This situation gave rise to a new situation of politics of pipelines. For instance, in the early 1990's there were speculations and even reports that Russia would give preference to Rosneft and Lukoil for exporting oil and gas produced in Russia to protect its domestic producers. This would put the CAS and Azerbaijan at a disadvantage as they found it difficult to export oil and natural gas. Occasionally conflicting situations emerged as each independent state tried to safeguard its own national interest. Some analysts also argued that there were also objective factors since there was capacity constraint on the pipeline network when demand for export increased over the years. In the early 1990's a pipeline was constructed linking Baku with Novorussisk port of Russia. This enabled Azerbaijan to export oil through Russia to world markets. But there was a need felt for additional pipelines so far the CAS and Azerbaijan were concerned giving rise to politics of 'Multiple Pipeline Policy'.

Since the 1990's the western countries and particularly the USA took advantage of the situation to push forward the 'Multiple Pipeline Policy'. The economic consideration was at least partly to capture the energy resources of the Caspian and the Central Asian region to meet their own growing demand. Equally important was the Western geo-political interest to bypass Russia. Hence during the one and a half decade several project proposals were initiated by the western countries and the international oil companies.

One of the earliest projects was the Caspian Pipeline Consortium (CPC) linking the Tengiz oil field in Kazakhstan with Novorussisk port on the Black Sea of Russia stretching over 1,580 kms. The USA supported the CPC pipeline project to enable Kazakhstan to export oil to the West. Several private firms

including some foreign companies such as Chevron, EXXON had share in this project. Russia has 24 percent share in the CPC project, while Chevron has 15 percent, Mobil 7.5 percent. Under the then prevailing conditions of low prices for oil in the international market in the 1990's, some analysts opined that this project was considered to be not very profitable.

There were also delays in the completion of this project even as it was crucial for Kazakhstan's economy. For instance, the Kazakh prime minister Q. Tokayev stated in May 2001 that Russia was taking a 'negative attitude' which caused this delay. It appears that Russia and Kazakhstan had to sort out some differences on matters relating to customs duty to be paid to Russia, on the quantum of oil transported through the pipeline and so on. But with rising demand for oil in the world market since 2002 and consequent rise in price for oil from below \$ 48 per barrel to over \$ 90 per barrel by 2006, the CPC pipeline became profitable. This pipeline had initial capacity of transporting 28 million tons of oil, which could be enhanced to 67 million tons per year. This pipeline became operative in 2001 and about one-third of exports of Kazakh oil were handled by this pipeline. It is important to know that in March 2006 the Russian president Vladimir Putin as a part of political diplomacy offered the Kazakh president that Russia will increase the quota of oil to 67 million tons to be exported by the CPC.

Even as this offer made the Kazakh president immensely happy, Kazakhstan faced some problems. This pipeline passing through North Caucasus had been affected by volatile Chechen militant activities. Moreover, the Black Sea was facing heavy traffic problems as tankers had to pass through the congested Bosphorus Strait. The CPC pipeline also catered to the Kashgan oil field of Kazakhstan. As opined by Starr and Levante, Kashgan oil field would produce about 450,000 barrels of oil per day by 2010, which could eventually increase up to 1.2 million barrels per day. Hence even as CPC has assumed great importance, Kazakhstan required an additional pipeline. In the opinion of western energy experts Kazakhstan could even consider a parallel pipeline to CPC.

In 2003 the former president of Turkmenistan Sapramurad Niyazov entered into an agreement with Russia under which he committed to export through Russian pipelines significant quantity of its natural gas over the next 25 years. This became known as the 'Deal of the Century'. Similarly, Russia's Gazprom company was able to enter into agreement with Uzbekistan to export natural gas through Russia's pipelines. These agreements enhanced Russia's position in the global energy market. This was particularly important for Russia since there was some decline in the production of oil and gas in its own fields. Russia was increasing its co-operation with Uzbekistan in energy sector. Over the years Russia had increased its imports of gas from 7.114 billion cubic meters of Uzbek gas in 2004 to 8.15 billion in 2005, and was expected to import 10 billion in 2006. Moreover during the meeting of Gazprom chief Alexei Millar

with Islam Karimov in December 2006 it was noted that Gazprom would also participate in the modernization of Uzbekistan's gas-transport system, with Gazprom's total planned investment in the Uzbek economy set to exceed \$1.5 billion.

There was a joint agreement to construct the pipeline signed on 20th December 2007 between the Russian president Dmitry Medvedev with the leaders of Kazakhstan and Turkmenistan. The pipeline from the Caspian coast of Kazakhstan was expected to transport an estimated 30 billion cubic meters of gas from Turkmenistan and up to 10 billion cubic meters from Kazakhstan for further transportation to Europe.

Notwithstanding these developments for sustaining and expanding cooperation with Russia, the leaders of the Central Asian countries pursued their own national interest in promoting alternative pipelines for exporting oil and natural gas to world markets. Thus Baku-Tbilisi-Ceyhan (BTC) pipeline of 1,800 Kms. was initiated, which connected Baku in Azerbaijan on the Caspian Sea passing through Georgia linking the Turkish port of Ceyhan. Initially some critics considered that this BTC pipeline project was not viable on various grounds. Firstly, as this project would cost about \$ 4 billion, it was considered to be economically not sound at the prevailing low prices for oil in the international markets. Secondly, the pipeline passed through several mountainous regions and hence technically hazardous. Thirdly, the pipeline which passed through autonomous regions inhabited by ethnic groups which were politically sensitive -Meshketia, Javkati etc. in Georgia and the region was facing ethnic violence and conflicts and hence unsafe. Despite such criticism the contentions of which were not fully convincing to the initiators of the project, it was implemented. The BTC pipeline was not only bypassing Russia, but that it would link the Caspian Sea with the Mediterranean Sea and hence providing direct access to world energy markets. The BTC pipeline was inaugurated in May 2005 and Kazakhstan foreign minister Kasymzhomart Tokayev evinced considerable interest in transporting oil through this pipeline initially through tankers up to Baku, which later to be exported to world markets. This proposal was supported by the president of Kazakhstan Nazarbaev in June 2006, which enhanced the importance of the BTC pipeline. He even supported the proposal of constructing underwater pipeline linking Kazakhstan's port of Atyrau and Baku.

Besides the BTC pipeline, there was a proposal to construct Trans-Caspian pipeline under the Caspian Sea. While the western countries had been supportive of this project, Russia objected to it on issues relating to environment claiming that the region being prone to seismic activity.

Energy Co-operation Between Central Asia and China

Since the Soviet break-up co-operation in the energy sector had been playing an important role in the economic relations between the CAS and China. The

extent of increase in energy import demand of China was evident from the fact that while in the year 2000 China was hardly importing oil, in 2006 it emerged as the second largest importer of oil in the world after the USA. To meet its rapidly growing demand, apart from sustaining its interest in traditional sources of supply in the Middle East and some African countries, China started paying particular attention to the neighboring countries of Central Asia. The active policy of the state in the energy sector of Central Asia had been further reinforced by some oil companies of China that have made investment in the energy sector of Kazakhstan and Turkmenistan and Uzbekistan. Chinese leaders even at the highest levels visited the Central Asian countries under mutual exchange arrangements, which strengthened political and economic ties between China and Kazakhstan and other CAS. For instance, during the visit of the former Turkmen president late Niyazov in April 2006 to China, an agreement was signed with the then Chinese president Hu Jintao under which China would receive 30 billion cubic meters of natural gas annually. To achieve this objective China seriously started working out pipeline proposals linking Central Asian energy centers with Chinese industrial centers. Equally important was that China extended economic support to the CAS under the CAREC program. Moreover, China jointly with Russia had been extending co-operation to the Central Asian countries through the Shanghai Cooperation Organization.

Thus China has succeeded in laying a pipeline from Kazakhstan to western region of China. Oil from this new Kazakhstan-China oil pipeline was delivered to China since May 2006, tripling the amount of Kazakh oil China imports. Beijing hoped to further increase the amount of petroleum the Kazakhstan-China pipeline from approximately 95,000 bpd in 2005 to 160,000 bpd by the end of 2007. In June 2006, a subsidiary of CNPC announced plans to spend \$ 210 million to look for oil and gas in Uzbekistan over the next five years. In October 2006, China National Petroleum Corp. (CNPC) concluded a \$4.18 billion takeover of PetroKazakhstan Inc. It is important to note that China also entered into an agreement with Turkmenistan and Uzbekistan for construction of a pipeline for taking natural gas from Turkmenistan. This pipeline was 'priority' for China and was to be completed in 2009. As stated by the ambassador of China to Uzbekistan Yu Hongjun on the 12th December 2006 only on some issues compromises were to be worked out on the pipeline project.

Political and Economic Issues

For Kazakhstan and Turkmenistan energy resources are primarily a source of revenue and hence their interest is to maximize economic gain. Equally important was the fact that they got an opportunity to assert their independence to interact with the Western powers for geo-political and geo-economic interests. For the USA and western countries, the break-up of the Soviet Union

gave a historic opportunity to enter Central Asia. Even as the initial hype about the huge energy resources of the Caspian Sea was short-lived, there has been a realization that the Central Asian region did provide an additional source of energy for the West. Spurt in the world market price for oil since 2002 enhanced the economic importance of the CAS. But more than economic interest, political and geo-political significance of the CAS is dominant for the West and that was a part of Great Game in Central Asia. Moreover according to the US experts, revenues generated by energy resources have helped some political stability in the CAS. But the main objective of the West has been that the CAS should undertake political reforms to bring about western type of democracy. Because the western leaders and analysts are critical of the authoritarian regimes of the Central Asian states, human right violations, lack of transparency, lack of freedom of press etc. in these countries. Hence expectation of the West could be far from reality in the near future.

At the same time the Western powers have pursued aggressively 'Multiple Pipeline Policy' in Central Asia to contain the hold and influence of Russia in Central Asia. Thus a new Great Game is being played by both the West and Russia in the Central Asian Region. Kazakhstan and Turkmenistan have positively responded to the initiatives of the western countries and oil giants, which have offered large opportunities for selling their energy resources to world markets. This is important to Caspian Sea states. Moreover, Uzbekistan, which has abundant natural gas reserves, has also come closer to Russia during the last few years. The interest of the CAS is also partly political since western countries help them in reducing their dependence on Russia. Even more important is that the Western countries have been offering modern technology for the development of energy sector and other related branches of economy of the CAS. The leaders of the CAS rightly decided to continue their close relations with Russia, which was also important for their oil and natural gas exports. Hence the CAS have also sought co-operation with Russian companies such as Gazprom, Lukoil etc which have made huge investment in exploration, exploitation and transportation of oil and gas in their countries.

Thus, after initial neglect Russia revived its interest and involvement in Central Asia since 1995-1996 giving a boost to 'Near Abroad' policy. Because there was a perception that growing western influence in the Central Asian region will affect Russia's own interest and security. The Russian policy makers were convinced that energy resource potentials of Central Asian countries will add to Russia's political objective to emerge as a global energy power. Hence apart from enhancing its control over Central Asia's pipeline net work, Russia's energy firms made huge investment in the energy sector of the CAS. Russia also considered that it was in Russia's own geo-political interest to contain the influence of the Western powers in Central Asia by establishing close strategic co-operation with China and by strengthening the role of the Shanghai Co-operation Organization in the Central Asian region.

Hence, it can be safely concluded that Caspian energy sector has indeed been the genesis of geo-politics and geo-economics leading to Great Game being played by major powers in Central Asia .

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