

**ENERGY PROJECTS AND
ENERGY POLICY****GEOPOLITICS AND
ENERGY DIPLOMACY
IN CENTRAL ASIA AND
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It has become obvious today that the global energy market is hugely unbalanced not only by the exorbitant oil prices, but also by mounting military and political tension in the Middle East, the largest oil producer, and the rapidly disappearing oil reserves of the major oil consumers. The growing fuel consumption all over the world—in developed and developing countries alike—is another reason for these processes and the principles according to which the world market functions today. Huge amounts of money are being poured into the oil and gas sphere; and the political and economic interests of the major geopolitical actors are focused on it. It looks as if the world will continue consuming hydrocarbons at a rapidly increasing rate in the foreseeable fu-

ture as well. As a result, the largest oil importers will obviously have to compete for influence or for even greater influence in the oil- and gas-rich regions.

Oil and gas are non-renewable resources randomly scattered all over the world, which explains their geopolitical importance for the world powers seeking stable and predictable access to them. Natural resources have long been not only an export item, but also an efficient foreign policy instrument of the states that possess these resources and the right to manage them.¹ While encouraging economic cooperation, many coun-

¹ See: Iu. Godin, "Geopoliticheskaia rol' vneshney torgovli energoresursami dlia Rossii," *Mirovaia ekonomika i mezhdunarodnye otnoshenia*, No. 2, 2006, p. 103.

tries are pursuing geopolitical rather than economic aims.

The Caspian-Central Asian region, which includes the Caspian and Central Asian states, forms a large and interconnected energy market

with an exceptionally advantageous geostrategic position. Today, the region is still a place where the national interests and geopolitical rivalry of external forces seeking energy security meet and intertwine.

Energy Security Conceptualized: The Role of the Caspian-Central Asian Region

It is commonly believed that two key issues dominate the global security sphere: first, is there a danger that the world's proven energy resources will be exhausted and how will the structure of the world energy balance change in the next 25 years? And, second, what is "energy security?" If this concept does exist, what exactly should be done to allow each of the states and world energy fuel market as a whole to achieve it?

The results obtained during a wide-scale survey can answer the first question: by 2030 the share of oil in worldwide energy consumption will drop by one percent—from 39 to 38 percent. By the same year, according to the same project, the natural gas demand (if it grows by 3 percent annually) will double compared to 2001. By 2030, natural gas may account for 30 percent of the energy fuel market, thus outstripping coal by one-third. It will mainly be used for electric energy production, the demand for which will also rapidly grow; the pace will be especially impressive in industrializing China and India. The share of nuclear power energy will drop from 6.6 percent in 2001 to 4 percent in 2030, while renewable energy sources will double their share to 7 percent.²

In the next 25 years, oil consumption will rise steadily without leaps and bounds; after a while, the world will gradually exhaust the easily recoverable oil reserves (about 1 trillion barrels), since oil consumption outstrips the pace of new field development. The world, however, has huge (about 1.1 trillion barrels) oil reserves found in hard to reach or climatically harsh areas.³

Energy security is commonly described as "access to the energy resources needed to develop national power." There is a widely shared opinion in the expert community that energy security is the second important component of state policy, following immediately behind national defense.⁴ It demands that the state should ensure a reliable, consistent, and diversified supply of energy sources. A reliable energy infrastructure is another side of the same problem, as well as emergencies that may disrupt its functioning. Sustainable economic development is part of the wider problem of energy markets and reliable supplies. Diversification of energy resource supplies designed to ensure long-term energy security and environmental protection is another important issue. The geopolitical aspects of the general energy strategy presuppose control over the sources of energy fuels and their supply lines. The process turns into rivalry, which inevitably leads to clashes of interests.⁵

² See: *Energy and Security: Toward a New Foreign Policy Strategy*, ed. by J.H. Kalicki and D.L. Goldwyn, Woodrow Wilson Center Press, Johns Hopkins University Press, Washington, Baltimore, 2005, p. 25.

³ *Ibid.*, p. 21.

⁴ *Ibid.*, p. 22.

⁵ See: A. Korneev, "Rossia i mezhdunarodnaia energeticheskaia bezopasnost'," *SShA i Kanada: ekonomika, politika i kul'tura*, No. 4, 2006, p. 57.

Significantly, a stable worldwide market of energy fuels is another key energy security factor, together with diversified supplies and stand-by facilities. The same applies to constructive relations with the producer countries and large-scale users of energy sources, multifaceted measures designed to protect fields and oil and gas transportation routes, as well as international projects of investigation of world power engineering prospects and more efficient energy consumption.⁶

Energy security issues are shifting from a desire to be energy-independent to growing mutual dependence of the exporters and importers and to globalization of energy production, transit, and consumption problems. It is becoming increasingly clear that regional energy security issues are developing into global ones.

At present, most countries all over the world are facing grave challenges of a global nature closely connected with the still unresolved energy security problems. They are primarily the increased energy consumption, greater dependence on energy-consuming technologies, and skyrocketing prices on the energy market, as well as progressive depletion of the traditional explored reserves.

Today, the geopolitical structure of the global oil market is changing before our very eyes. Energy has become one of the key factors to be reckoned with. All countries should take them into account when shaping foreign policies and diplomatic approaches. In a world where energy fuels and the need for them have become the key factor of economic and technological development, energy diplomacy is already the linchpin of current policies.

For obvious reasons, the energy fuel-dependent countries are becoming much more lenient when it comes to foreign policy. In addition, attachment to one region as the sole source of fuel jeopardizes national security. As a result, the traditional paradigm of ensuring national security is changing, while most states have recognized the need to develop and implement a so-called energy security strategy. In the era of increasing mutual dependence, the world community has become fully aware that it needs stable and predictable energy markets as the cornerstone of global energy security.⁷

Looking back, we can say that the unprecedented grave energy crisis of the 1970s revealed the need to address global energy problems, including, among other things, by means of a dialog between the energy fuel producers and consumers. The crisis caused by the Arab countries' anti-Western moves shattered the world in 1973; oil prices skyrocketed for the first time in the 20th century to endanger economic progress in many countries. It was then that a group of developed countries, on America's initiative, closed ranks to oppose OPEC and its plans; it also elaborated certain measures that alleviated the global consequences of the energy crisis, which had already negatively affected the entire system of international economic relations. From the very beginning, the Group of Seven, or G7, set up in 1975 concentrated on international energy as well as trade, economic, and financial policy. It was an influential and competent institution of inter-state relations among seven leading countries. Its very first summits in Rambouillet (1975), Puerto Rico (1976), and London (1977) demonstrated that energy-related issues had moved to the fore in America's relations with other industrialized states.⁸

For historical reasons, global energy issues remain one of the priorities of today's G8 (with Russia among the members); its members largely define the course of global energy diplomacy. As the G8 chair country for 2006, Moscow, obviously aware of the entire range of accumulated problems, concentrated on the energy sphere. It is expected that international cooperation in the energy sphere will become a priority, although not the dominant one, of world politics in the foreseeable future.

⁶ See: D. Yergin, *The Prize: The Epic Quest for Oil, Money, and Power*, Cambridge Energy Research Associates, Cambridge, 1999.

⁷ S. Maksimov, "G8 i global'nye priority energeticheskoy diplomatii Rossii," *Mirovaia energeticheskaya politika*, No. 3, 2002, p. 39.

⁸ S. Zhiznin, "Energeticheskaya diplomatiya v ramkakh G8," *Mirovaia energeticheskaya politika*, No. 3, 2002, p. 33.

The growing international tension, spread of terrorism and extremism, the military operations in the Middle East, which is the world's most unstable region (Iraq, the Iranian nuclear problem, the Palestinian-Israeli and Lebanese-Israeli conflicts), and the increasing tension in Latin America (U.S.-Venezuelan relations), etc. have added new facets to the energy security problem.

How does the above affect the role of the Caspian-Central Asian region in the current geopolitical struggle closely connected with the world energy market?

The region, at the crossroads of the supply lines between Europe, Asia, and the Gulf zone, is commonly known as a key geostrategic area. It is equally well known that the rich oil and gas resources of the Caspian Sea have made the region important in the world energy sphere and in geopolitics. Today, according to certain sources, the total volume of proven oil resources in the Caspian is 4 billion tons, or 2.6 percent of the world resources.⁹ It is commonly believed that Uzbekistan's gas reserves amount to 1,850 bcm; while Turkmenistan possesses 2,900 bcm of gas.¹⁰

America, Russia, the EU, and China are convinced that the Caspian hydrocarbons are a serious factor capable of maintaining stability on the world oil market in the first half of the 21st century, as well as helping them to somewhat decrease their dependence on oil imports from the Middle East where continued military-political instability is forecasted. The Caspian reserves of energy fuels are large enough to satisfy a considerable part of the above countries' requirements. The Caspian reserves are not vast enough to undermine the Middle East's domination, yet they may stabilize the prices and the overall situation on the world energy markets.

Let's identify some aspects of the energy interests of the most active geopolitical players on the Caspian-Central Asian "chessboard."

The U.S.: As the world's largest oil consumer, the United States uses its economic and military might to pursue its own energy diplomatic strategy on a global scale. In fact, energy foreign policy all over the world has become even more important because the United States is the world's largest consumer of energy resources.¹¹ In the light of the officially announced long-term aim of diversification and much deeper development of the raw-material base outside America exploited by American companies, its foreign policy in the energy sphere concentrates on international regions and zones of its special energy interests.

The United States treats its relations with the countries rich in energy fuels—the Gulf, Latin American, Central Asian, and Caspian countries—as a priority. Washington officially describes the latter, together with the Gulf countries, as a zone of its "vital interests," which affects America's national security. This is dictated not only by its urge to achieve and maintain energy security: it is the White House's ambition to control the Caspian and Middle Eastern sources of energy fuels and transportation routes at the same time to be able to strengthen its geopolitical and economic situation in the world and its domination on the world hydrocarbon markets. In this context, the United States is seeking Caspian resources not so much to import more oil as to use the increased oil exports from the region to put pressure on the OPEC members in order to undermine their influence on the world oil markets.

Today, the United States needs oil more than ever before, therefore free access to energy fuel sources has become one of its priorities. In the last ten years, Americans have increased their oil consumption by 14 percent, while domestic oil production rose by 2 percent, the difference being covered by imported oil. In the last ten years, energy fuel import has grown by 30 percent. America is obviously growing increasingly dependent on oil imports; the situation is becoming even more serious because of the inflated oil prices.¹²

⁹ See: D. Kalieva, "Geopolitika nefteprovodnykh kommunikatsiy," *Analytic*, No. 1, 2005, p. 20.

¹⁰ See: *Energy and Security: Toward a New Foreign Policy Strategy*, p. 190.

¹¹ S. Zhiznin, "Energeticheskaya diplomatiya SShA," *SShA i Kanada: ekonomika, politika i kul'tura*, No. 2, 2000, p. 72.

¹² See: D. Kalieva, "Geopolitika nefteprovodnykh kommunikatsiy," *Analytic*, No. 2, 2005, p. 13.

Due to its recent failures in Iraq, Afghanistan, and elsewhere, Washington has somewhat readjusted its approaches to the other powers present in the region. In October 2005, during her Central Asian trip, U.S. State Secretary Condoleezza Rice confirmed once more that the U.S. administration was resolved to remain in this strategically important region and pointed out that no “race of interests” was needed since there was enough room for all.

The RF: Russia is the world’s largest oil and gas exporter, which explains why energy fuels are its very important foreign policy issues. The Caspian and Central Asia are traditionally the zone of Russia’s geopolitical and economic interests. Its key interests include control over the production and transportation of oil and gas resources to the markets.

Transportation is important because Russia not only wants stability when it comes to the geopolitical balance of forces in the region—it also deems it necessary to maintain stability on the world oil and gas markets in the interests of both producers and consumers.¹³ The Kremlin does not want to make Central Asia a scene of geopolitical confrontation, even though there is opposition among the foreign actors there.

Russia, which is posing as a large and independent energy power, is seeking a corresponding share of responsibility for global energy security and stability. In 2006, President Putin officially announced that Russia intended to become the world’s energy leader. Moscow put forward the energy issue as the key one at the Petersburg G8 summit in July 2006.

In recent years, the Russian government has established tighter state control over and management of energy resources inside the country, yet many of the Western states are apprehensive about Moscow’s rather hard-line energy strategy. The West is displeased with the YUKOS affair, strict limitations on foreign investments in Russian oil fields, etc. The Kremlin has obviously acquired ideas of its own, different from those of the West, about energy security and the role of Russia and Central Asia on the global energy market.¹⁴

The PRC: In the last twenty odd years, the energy fuel deficit has come to the fore as an extremely important factor that interferes, to a certain extent, with the country’s economic dynamics. According to specialists’ forecasts, in the future the country will have to import more and more oil. In 2004, it imported 120 million tons of crude oil; and in 2005, China’s dependence on imported fuel topped 50 percent. According to preliminary forecasts, by 2010 it will consume 400 million tons of oil, a meager 160-170 million tons coming from domestic sources.¹⁵ Mid- and long-term economic prospects reveal the true significance of oil for China.

In the face of economic development and the new trend of energy consumption, as well as in the worldwide energy-geopolitical and diplomatic context, China is seeking a stable strategy that will bring it to the foreign energy markets, the Central Asian market in particular.

At no time has Beijing doubted the region’s strategic importance—it has always regarded Central Asia as its natural continental sphere of influence. Today China is actively trying to penetrate Central Asia’s energy market and have a say in any possible re-division of it.¹⁶ It should be said that, apart from Russia and Kazakhstan, Turkmenistan and Azerbaijan are China’s two other partners in the energy sphere. Because of their huge hydrocarbon resources, geographic proximity, which makes transportation easier, and the dynamically developing integration within the SCO, Kazakhstan and Russia are of special strategic importance for China.

¹³ See: E. Telegina, “Mirovoy energeticheskiy rynek i geopoliticheskie interesy Rossii,” *Mirovaia ekonomika i mezhdunarodnye otnosheniya*, No. 5, 2003, pp. 60, 64.

¹⁴ See: G. Chazan, G. White, “Energeticheskaia politika Rossii protivorechit ee slovam dlia G8,” available at [<http://www.inopressa.ru/ws/2006/07/06/11:46:16/g8>].

¹⁵ See: Hu Hao, “Tendentsii energodiplomatii mirovykh derzhav i perspektivy kitaysko-kazakhstanskogo energeticheskogo sotrudnichestva,” *Kazakhstan v global’nykh protsessakh*, No. 1, 2006, p. 32.

¹⁶ See: S. Cherniavskiy, “Tsentral’naia Azia v epokhu peremen,” *Rossia v global’noy politike*, No. 6, 2005, p. 154.

The EU: The European Union, a geopolitical actor of a new type with vast economic and military-political potential, as well as great ambitions created by the combined national interests of 25 European countries, is actively seeking a niche of its own in the global energy expanse.

According to the European Commission, the EU will become even more dependent on imported gas and oil in the near future. If nothing is done today, in two or three decades the EU will cover 70 percent of its energy fuel consumption with imported oil. (Today Brussels estimates the share at 50 percent.) To avoid a short-term deficit, Europe has to create mechanisms of fuel deliveries from other countries.

José Manuel Baroso, Chairman of the European Commission, has pointed out in particular that to ensure a steady supply of energy fuels, all the EU member states should close ranks: they have to decide whether they are prepared to delegate their powers in the energy sphere for the sake of a coordinated energy policy that will strengthen the EU's position at the talks with oil and gas suppliers. Brussels has obviously learned the lesson of early 2006 when the gas conflict between Russia and Ukraine undermined gas supplies to EU countries.¹⁷

It seems that the coordinated energy policy issue looms large and that the Caspian-Central Asian region will play one of the key roles in its implementation. In 2005, the EU showed, in the diplomatic manner typical of it, its interests in the region by creating the post of special EU representative for Central Asia and the Caucasus.

Unlike the United States, the EU countries recognize Russia's interests in Central Asia and are prepared not only to discuss them, but also to cooperate in the security sphere (the anti-drug struggle in particular), the fuel and energy complex, and the transportation problem.¹⁸

All the above countries and the EU are the main actors operating on the energy field of the Caspian and Central Asia. There are several periphery players also wishing to claim their share of the "energy pie." With no prominent position in this sphere, they can be described as strong regional geopolitical actors. The regional states turn to these countries when they need an alternative to the main players. I have in mind Turkey, India, Pakistan, and, to a certain extent, Ukraine. None of them can be described as a newcomer, but not all of them are strong enough to reinforce their declared ambitions with practical measures: their regional presence is still barely noticeable.

India: Today it is the sixth world's largest energy consumer; it is actively involved in the process of diversifying its energy sources. Like China, it is enormously interested in the Caspian states' gas and oil sphere. Obviously inspired by the Baku-Tbilisi-Ceyhan project, Indian Energy Minister Shankar would like to initiate another similar project—an oil pipeline that would bring Caspian oil to India.

Pakistan: Its acute need for energy fuels is forcing the country to convince the Caspian states to take part in the old project of a Trans-Afghanistan gas pipeline system from Turkmenistan across Afghanistan to the South Asian countries.

Its frenzied activities are politically dominated.

- First, having presented itself as one of the regional leaders it wants a greater presence in the oil-rich region by building up economic contacts with the Caspian states.
- Second, it wants to deter India, its traditional rival.
- Third, because of its far from simple relations with Washington, Islamabad is seeking new partners up north.

Turkey: This is another actor pushing for geopolitical prominence in the Caspian region and Central Asia. Together with American companies, it is actively promoting the BTC oil pipeline, which,

¹⁷ See: "Briussel' trebuat novoy energeticheskoy politiki ES," available at [<http://www.inopressa.ru/faz/2006/03/09/12:43:10/eu>].

¹⁸ See: S. Cherniavskiy, op. cit., p. 157.

by joining the Caspian oil field with Turkish ports, will allow Turkey to diversify fuel sources and alleviate the dependence of Western Europe and America on the Gulf countries, by the same token increasing its own political and economic importance for the West.

Ukraine: Quite unexpectedly pro-European Ukraine wants a geopolitical role in the region: its new leaders described Ukraine's energy independence from Russia as one of its national priorities. Today, over 90 percent of Russian gas supplies to Europe are transported across the territory of Ukraine, which determines Kiev's strategic significance both for Russia and the European Union. However, the serious political crisis in the relations between the two countries, which cropped up after the Orange Revolution, made Ukraine Russia's permanent headache. Oil transit is not the only problem: potentially, at the instigation of the Orange leaders, Ukraine may become a military strategic springboard for the United States and NATO. As such it will develop into a serious challenge for the Russian Federation.¹⁹

The Caspian-Central Asian region is of great objective importance for the leading Western and Eastern countries as a large source of energy fuels; over time it will become even greater, so geopolitical tension will persist.

Pipelines as a Tool of Energy Diplomacy

The contradictory interests of the countries pushing forward their own projects and trying to shape the geopolitical orientations of the continental Caspian states are graphically manifested in the energy fuel transportation issue. This is creating many problems for the local countries, which must skillfully balance the interests of all main players to protect their own interests as well. The interests of the key Big Game players in the transportation issue are too complicated to be easily balanced—the task is very complex and calls for a lot of ingenuity.²⁰

The pipeline systems are developing into an important tool for protecting and implementing national interests; they are a tool of pressure, as well as a tool of friendly and long-term strategic partnership.

The Russian-Ukrainian gas conflict of early 2006 graphically demonstrated how such crises would be resolved in the near future. The “energy pressure” model was remarkable because it was carefully prepared: by halting gas supplies to Ukraine, the consumer and transit country through which gas reaches the EU, Moscow, without impairing its own interests, put strong pressure on Ukraine through Brussels, which suffered the most from Kiev's “misbehavior.” The crisis escalated from an economic into a political one. Ukraine, which wants to join the EU, yielded to EU pressure. By raising gas prices and halting its supplies, Moscow showed who was the boss and sent a broad hint to Brussels.

In Western Europe, however, this message was taken as a sign of trouble. Western analysts wrote that Russia, very much as before, continued using its energy resources for political purposes. It used natural gas to “reward” neighbors that accepted its “political dictate” (such as Belarus) and to “punish” states wishing more independence (such as Georgia and Moldova). It is also seeking control over their oil- and gas-pipeline and energy supply systems through gas as a pressure tool. It is a powerful one: Russia accounts for over a quarter of the world's total gas supplies; it is one of the key gas suppliers for practically all the European countries.²¹

¹⁹ See: D. Malysheva, “Geopoliticheskie manevry na Kasprii,” *Mirovaia ekonomika i mezhdunarodnye otnoshenia*, No. 5, 2006, pp. 72-75.

²⁰ See: D. Kalieva, “Geopolitika nefteprovodnykh kommunikatsiy,” *Analytic*, No. 1, p. 20.

²¹ See: “Russia's Energy Politics,” *The Washington Post*, 4 January, 2006.

This explains why the Caspian and Central Asian countries are doing their best to diversify energy transportation, while Russia probably runs the risk of losing, some time in the future, its monopoly in this field as well. Contrary to their carefully demonstrated desire to preserve constructive relations with Russia, the United States, EU, and China would like to deprive it of its monopoly in this sphere.

Today, Moscow still controls the oil-pipeline infrastructure, which includes the CPC, the Atyrau-Samara, Baku-Novorossiisk, and other pipelines; it can still impose its conditions on the Caspian and Central Asian countries and remain the region's leader.

Beijing is currently in a very favorable position: it has completed the oil pipeline from Kazakhstan through Atasu to Alashankou, which goes on to reach the Asian Pacific states. For China, this route is a strategically, economically, and geopolitically important project; for Kazakhstan it is an open door to the capacious and promising Asian market. Economic advantages aside, the completed project will allow Kazakhstan to pursue a more flexible transportation policy independent of both American and Russian factors, as well as to balance out their regional influence. The Kazakhstani-Chinese project cannot be described as a political irritant for Russia's establishment: today, Russia and China are engaged in strategic cooperation.

The other big players, such as **Washington** and **Brussels**, cannot respond with alternative transportation routes to oppose the Kremlin. The "alternative" BTC pipeline is of obvious geopolitical importance and intended as a counterweight to Moscow. It was lobbied for its political rather than economic expediency and was a product of political considerations rather than negotiations of all sides involved. Significantly, its members either belong to GUAM or NATO (Turkey).

Kazakhstan's involvement is purely pragmatic and is prompted by the need to find alternative transportation routes for its oil. By seeking multi-vector export routes, Kazakhstan is diversifying its markets and achieving flexibility in loading and using the oil transportation systems. This is creating better tariff conditions for Kazakhstani oil and gas exporters. Experts agree that without Kazakhstani oil the BTC pipeline would unlikely be operating smoothly, therefore growing oil production in Kazakhstan was taken into account from the very beginning. For obvious reasons, the leaders of Kazakhstan at first were cautious about the project mainly because it was hard to deliver oil to Baku. It was understood from the start that when the republic's oil production outstripped its transportation potential, Kazakhstan would join the BTC to avoid greater dependence on Russia and its oil-pipeline system.

Moscow responds to these developments with a great deal of pain and jealousy. Even before the BTC project began, the RF Ministry for Environmental Protection objected to pollution of the Russian sector of the Caspian as a probable result of increased oil and oil product traffic among its Caspian neighbors and promised to take adequate preventive measures. Obviously, Russia will use administrative measures to prevent Kazakhstani oil from joining the BTC. It is unlikely to succeed: it will more likely lose its complete control over Kazakhstan's oil export, which it used to its heart content for a long time.²²

Today, the CPC is Kazakhstan's only outlet to the world market. When fully commissioned, the BTC project will diversify the republic's export and provide a counterbalance to Russia's influence. At the same time, the project will add to America's political weight in the region, which Kazakhstan will have to take into account. For this reason, it is discussing, so far in an abstract way, its possible involvement in the Odessa-Brody pipeline. The problem cropped up at recent talks with Ukraine, at which plans for a consortium among Ukraine, Azerbaijan, Kazakhstan, and Georgia were discussed. It is intended as an operator for transporting Caspian oil from Kazakhstan, Turkmenistan, and Azerbaijan along the Baku-Supsa pipeline and further on to Odessa.

²² See: A. Skorniakova, "Mimo Rossii," *Profil*, No. 26, 10 July, 2006, p. 46.

So far, due to Astana's potential rivalry on the world energy markets, Moscow, wishing to achieve certain political aims, can one-sidedly regulate the volumes of Kazakhstani oil crossing its territory and use it as a lever of political pressure.²³ This happened in the past when the Kazakhstani National KazMunaiGaz Company was not allotted a quota of 12 million tons of oil to be moved to the Mažeikiai oil refinery in Lithuania, thus depriving the company of the chance to buy it.²⁴

Turkmenistan, with the largest gas reserves in Central Asia and its export possibilities limited by the Gazprom pipeline system, is trying to find an alternative export outlet to sell gas at higher prices. Turkmenistan is not running any risks by entering into an open confrontation with the Russian giant monopoly. It has alternative customers—Ukraine and Belarus—the Russian company's "victims," which are prepared to accept Ashghabad's conditions (this is true of Ukraine in particular). A contract with Turkmenistan will allow Ukraine to decrease its dependence on Russian gas supplies and reduce the threat of a price increase. In 2007, Ukraine may count on considerable volumes of gas from Turkmenistan. Gazprom runs the risk of losing its monopoly on Turkmenian gas and a tool of pressure on Ukraine. The company might be deprived of part of the volumes it planned to buy from Turkmenistan to sell to Western Europe; it will be forced to look for gas elsewhere to fulfill its European contracts in 2007.²⁵

In an effort to preserve its control over Central Asian energy exports, Russia is offering its own arguments against the trans-Caspian pipelines. While Russian diplomats are talking about the environment, Moscow is building up its military presence in the region. A couple of pipelines on the Caspian seabed will completely destroy Russia's monopoly on the export routes that link the key energy producers in Central Asia (Kazakhstan and Turkmenistan) and the Western markets. Today, Moscow is doing its best to prevent the implementation of the trans-Caspian pipeline project. Azerbaijan and Kazakhstan, two countries that need maximum energy export independence, have joined forces to counter Russia's environmental objections.²⁶ Astana, Ashghabad and Baku might demonstrate even more consolidated determination to oppose Russia.

Washington is convinced that a wider system of energy security achieved by creating more energy transportation routes meets the interests of the local states and foreign investors. After succeeding lobbying the BTC pipeline, the Americans have been busying themselves with pushing through a so-called Trans-Caspian Gas Pipeline designed to move Turkmenian gas across Azerbaijan, Georgia, and Turkey to Europe. It looks as if the United States has decided to link the two projects together as vitally important for Washington's foreign policy strategy, mainly from the point of view of its geopolitical interests in the region.

To protect itself from the Middle Eastern political risks by means of Caspian oil, Washington should decide which of the export routes is best suited to its interests. This means that the United States should clearly acknowledge whether by-passing Russia should become its major aim. Or will being involved in laying export routes across Iran, the alternative favored by the non-American participants in the project, be less palatable than Russia's participation?²⁷

The "energy lesson" Russia taught Ukraine early in 2006 forced the U.S. State Department to declare that America's energy security should become a state priority. The lesson was obvious: the United States should act in all directions in order not to fall victim to other states' politics.²⁸

It should be said in all justice that American energy diplomacy is fond (at times even more than Russian) of all sorts of sanctions against states whose policies are not popular with the White House or threaten, according to American reckoning, generally accepted democratic principles and internation-

²³ See: D. Kalieva, "Geopolitika nefteprovodnykh kommunikatsiy," *Analytic*, No. 1, p. 21.

²⁴ See: A. Skorniakova, op. cit., p. 47.

²⁵ "Gazpromu otkryli vostochnyi front," *Kommersant*, 30 June, 2006.

²⁶ See: "Rossia pytaetsia srvat' proekt transkaspiskogo truboprovoda," 30 March, 2006, available at [www.eurasianet.org].

²⁷ See: *Energy and Security: Toward a New Foreign Policy Strategy*, p. 162.

²⁸ Based on RIA Arbitr information of 6 January, 2006, available at [http://ria-arbitr.ru/news.htm?id=20024].

al security. Misbehavior includes human rights violations, involvement in terrorist acts and drugs, nuclear proliferation, use of prisoner labor, etc.

American-Iranian relations may serve as an example. They have remained strained for a long time; **Iran** is living under the pressure of all sorts of sanctions and fairly harsh treatment from Washington. Many of the transportation projects involving Iranian oil failed precisely with American help.

America is probably unwilling to change the situation; its hostile anti-Iranian policies might be explained by its desire to keep away all rivals until the Americans return to the Iranian markets. At the same time, there is a desire to establish more constructive relations with Tehran, but this development cannot be forecasted so far.

For objective reasons these policies do not suit Kazakhstan and Turkmenistan, two continental countries that badly need Iranian transit. The leading EU countries may demonstrate a more positive attitude to the trans-Iranian transportation project: they have been clearly and increasingly detaching their interests from America's, in the Caspian region as well as elsewhere. The Europeans know that American policies in Iran are aimed at replacing the ruling regime with a more malleable one—to ensure America's national security and to establish direct or indirect control over this oil-rich country. For this reason, the EU is pursuing a more independent policy in the interests of its members wishing to peacefully cooperate with Iran in the sphere of energy and transit.²⁹

Today the **EU**, as one of the key consumers of Caspian energy resources, is trying to diversify supplies; this makes it interested in improving relations with alternative suppliers. Back in 1991-1994, most of the European states signed the European Energy Charter, which said that each transit country should ensure free access to its transit facilities for end energy consumers. This means that every country receiving certain volumes of gas through transit systems should have free access to the transit system within the volumes it uses.

The EU is pursuing its own policy on the energy market. Unable to modify the rules on the world oil markets, Brussels turned to gas. In 2000, gas accounted for 23 percent of the EU energy consumption; the share is expected to reach 32 percent by 2030. This forced the EU to promote rivalry on the gas supply market by separating EU pipeline companies from gas distributors and demanding free access to European pipelines for all interested gas suppliers.

The EU is strengthening energy security at the level of gas production: EU bureaucrats and European companies are actively involved in the gas pipeline project to connect Azerbaijan and Europe via Turkey. The European Union would like to transport Turkmenian, Kazakhstani and, potentially, Uzbek gas through this pipeline.

In the current situation, greater European or Chinese involvement in the region's pipeline infrastructure will decrease geopolitical tension and help balance out the regional rivals. A developed pipeline system will become a tool of foreign policy and economic activities. The far from simple situation in the Caspian and Central Asia has demonstrated that diversified energy sources and transport outlets are conducive to geopolitical balance and energy security.

Energy Security as the Cornerstone of the Geopolitical Structure in the Caspian-Central Asian Region

During the past five years, the Caspian-Central Asian region has remained in the focus of international attention; because of its geostrategic position and energy potential it occupied a niche of its

²⁹ See: D. Kalieva, "Geopolitika nefteprovodnykh kommunikatsiy," *Analytic*, No. 1, p. 24.

own in the system of geopolitical coordinates. To grasp all the difficulties of regional geopolitics, we should identify the following obvious and continuing trends, which include:

- Lack of balance and strategic certainty among the main external players (the U.S., RF, PRC, and EU);
- Lack of balance and strategic certainty between the key external players and the Central Asian countries;
- Lack of balance and strategic certainty among the Central Asian countries themselves.³⁰

These trends are responsible for the highly complicated nature of the regional geopolitical processes. We should admit that the national interests of the major geopolitical players in the sphere of sustainable energy supplies and control over their sources are responsible for the international political demagoguery over ensuring regional security in the Caspian-Central Asian region.

It seems that under these conditions, security of the local states is seen through the prism of required stability of energy supplies and guaranteed incomes on investments. The above suggestions are based on the following: first, demonstration of military might by two opposing blocs—CSTO/SCO and NATO/GUAM—which is sending regional tension higher; second, regional tension and instability are preserved to feed the member states' energy-related ambitions. Today, all those involved in the region are equally exposed to the threats, therefore we need a balance among the external forces and their cooperation lest regional tension continue.

The year 2005 changed the geopolitical situation in Central Asia and changed the balance of forces of the main geopolitical actors.

The **United States** lost some of its influence and its position was weakened. As a result of the regime change in Kyrgyzstan, the political crisis in Uzbekistan, and the worsened situation in Afghanistan, these countries changed their political landmarks. More than that: Washington's domination is challenged by the continued and deepening Iraqi crisis, the latent conflict in Afghanistan, and obvious and mounting anti-Americanism in Latin America, Asia, etc. This is largely related to America's domestic situation: the president's plummeting job approval rating, frequent personnel shifts at the top of the state administration, and an obviously encroaching crisis in George W. Bush's administration.

As was earlier predicted, these developments have deprived Washington of its previous ability to control all the military-political processes on a global scale: while concentrating on one region, it is losing its grip on another.³¹ It is too early, however, to dismiss the U.S. altogether: during the five years of its active involvement in regional developments, Washington acquired a firm foothold in the economic and military sphere of some of the local states and can, therefore, influence the energy situation in the Caspian-Central Asian region. Since the situation in the Middle East is going from bad to worse, America might act quite unexpectedly to fortify its position in the Caspian and Central Asia and increase its share in the local energy fuels.

Today, **Russia** is in the center of a geopolitical web being woven to decrease its monopoly influence on the regional energy flows. Seen from the West, Moscow looks like a "transportation monopolist," a potential "energy dictator," a threat to the energy-related interests of the Western countries, and a strategic partner at the same time. Double standards typical of Western diplomacy and America's political achievements in the region have not yet deprived Russia of its geopolitical power and ability to affect local politics to a certain extent. Its close relations with the Caspian states, rooted

³⁰ See: M. Ashimbaev, "Sovremennaya geopoliticheskaya situatsiya v Tsentral'noi Azii v kontekste interesov mirovykh i regional'nykh derzhav," *Kazakhstan v global'nykh protsessakh*, No. 2, 2005, p. 6.

³¹ See: T. Shaymergenov, "Tendentsii razvitiya geopoliticheskoy situatsii v Tsentral'noy Azii na sovremennom etape," *Kazakhstan v global'nykh protsessakh*, No. 2, 2006.

in common history and cultural ties, transit potential, and the strongest military presence in the Caspian are Russia's most obvious advantages.

Today the Kremlin has clearly outlined its role as the world's energy power and given the other players to understand that it will not tolerate any infringements on its monopoly in the region. On the other hand, all Russia's gains in the region aside, it has not yet identified its long-term interests, therefore we cannot expect its final predominance in the Caspian and Central Asia in the near future.

China, which for some time remained fairly passive, has been increasing its involvement in the geopolitical struggle around the oil pipelines. It still remains devoted to the traditional "wait-and-see" tactics, yet its position in the regional economies has become obviously stronger. We can expect a breakthrough. As a large oil importer, China is in the same boat as the U.S., EU, Japan—large-scale oil consumers. We would expect concerted actions on their part when it comes to dealing with oil suppliers. The sides, however, feel and behave like rivals rather than like fuel-hungry partners: the West is trying to keep China away from Middle Eastern oil and limit its presence in the Caspian.

China's "friendship" with Moscow and Astana, its key energy allies, stems from the above. Fully aware of China's dependence on fuel and despite their strategic partnership, the Kremlin deems it necessary to betray its ambitions from time to time: in 2003-2004, the talks between the two countries about oil- and gas-pipelines from Siberia to China failed because neither the oil companies of the Russian Federation, nor its government wanted to increase oil deliveries to China. Moscow's "pipeline games" forced China to seek alternatives, which were found in the form of a pipeline project with Kazakhstan. The Russians, meanwhile, have not dropped the original plan altogether, but refused to look at the project expected to bring Siberian oil to the northeast of China through the city of Daqing as the priority one. Moscow favored a transportation project from Eastern Siberia to Nakhodka from which Japan, China's main rival in the region, profited.³² This is far-sighted because, under Western pressure, Moscow obviously needs strong regional allies.

China, too, needs military might to confirm its position in the region. In May 2005, Beijing put forth feelers: Liu Zanchao, spokesman of the Foreign Ministry of China, said in the *Huaxia Shibao* newspaper that the Chinese side "may seriously consider" the possibility of sending its troops to Kyrgyzstan within the SCO framework because its armed forces deployed in the country's south might prove useful in the struggle against terrorism, separatism, and extremism.³³ The statement was prompted by the words of Kurmanbek Bakiev, who said that because of the events in Uzbekistan the republic's southern regions were flooded with refugees and that he would agree to the deployment of CSTO and SCO forces to stabilize the situation.³⁴ Official Beijing offered no comment about Liu Zanchao's declaration, but Bishkek diplomatically rejected the "Chinese intervention" (the term the press used to describe the possible deployment of Chinese troops in Kyrgyzstan). The Chinese did not insist, but their hint was too obvious to be misunderstood.

The changing geopolitical situation in the Middle East and Central Asia is forcing China to extend its political and economic cooperation with Iran. It may serve as a diplomatic tool to be used in China's geopolitical maneuvers in both regions and an important source of energy fuels. Today, several scores of Chinese companies are already involved in large-scale energy, industrial, and construction projects, one of them being a main pipeline to Tehran. This is obviously intended, among other things, to stimulate trade in oil and oil products with Kazakhstan and Turkmenistan.

³² See: D. Kalieva, "Geopolitika nefteprovodnykh kommunikatsiy," *Analytic*, No. 2, p. 17.

³³ Based on RIA "Novosti" information of 31 May, 2005, available at [www.rian.ru].

³⁴ Based on RIA "Novosti" information of 25 May, 2005, available at [www.rian.ru].

It seems that Washington, as Beijing's main rival, will offer stiff competition over oil and domination in the Caspian and Central Asia. China will persist in going on in the desired direction and will continue avoiding an open confrontation with the United States. While moving forward step by step and using the mechanism of economic cooperation, China will build up its presence in the region until all the other powers will have to accept it for a fact.³⁵

The **European Union**, for its part, is also working on its energy-related policies in the region, but it is unlikely to step up its involvement in the mid-term: the very complicated system of harmonizing the positions of its 25 member states is unlikely to allow it to fortify its position in the region as a single energy player. It seems that individual members (Germany, the U.K., and France) will demonstrate more activity. In any case, it is too early to look at the EU as a serious force in Central Asia. Brussels' obvious intention to present itself as a power in the region is merely another attempt to acquire more confidence and overcome the complex of a "junior" member of the trans-Atlantic combination.³⁶

The above suggests that a lack of balance among the leading external players and tension among them as well as among the local states and their fairly complicated geopolitical intrigues are destabilizing the situation. Destabilization, in turn, jeopardizes the sides' energy security.

* * *

It seems that permanent tension in the Caspian and Central Asia may negatively affect its energy market's competitiveness on a global scale. No "Caspian Oil Cartel" will appear to balance out the Middle East: its energy resources will remain an object of political games of outside forces and "hostages" of the ambitions of transit countries.

Central Asia needs alternative cooperation channels and an efficient system of geopolitical checks and balances. Being dependent on the key geopolitical actors, the local countries remain targets of outside influence unable to change the course of events in their favor. The still unsettled status of the Caspian, which is creating numerous claims and ambitious statements, is one of the stumbling blocs.

It seems that the widening oil pipeline network might allow the local oil producers to defend their interests more effectively. A ramified transportation system and considerable resource potential are the keys to the leading actors' energy security, and they should learn how to use them. If they continue acting independently, the regional states are in danger of perpetrating their dependence on external forces. Only by pooling their efforts and creating a single energy market as the basis of their united front on the global market, these countries have a chance of increasing their energy and, consequently, geopolitical competitiveness.

Today, there is nothing to indicate that this might happen soon, while external forces continue exploiting the divide and rule policies with great success.

³⁵ See: D. Kalieva, "Geopolitika nefteprovodnykh kommunikatsiy," *Analytic*, No. 2, p. 18.

³⁶ See: T. Shaymergenov, *op. cit.*