RUSSIA, THE WEST, AND THE SCO COUNTRIES IN THE CENTRAL EURASIA ENERGY PROJECTS

Yuri MOROZOV

Ph.D. (Military Sciences),
professor at the Academy of Military Sciences,
chief researcher at
the Institute of Far Eastern Studies, RAS
(Moscow, Russia)

A Geopolitical "Taste" of the Central Asian Energy Projects

In the near future energy will remain a geopolitical category. This is especially true of the oil and gas sphere. Indeed, according to the International Energy Agency (IEA), organic fuels will remain the main energy source until 2030 in the world, where the developed countries consume the greater part of the oil and gas produced. In 2006, the United States, which consumes 24.6 percent of the world oil production, imported 60.2 percent of its domestic consumption. The EU members, which in 2006 imported about 80 percent of the oil they consume, depend on oil to a much greater extent.[1] Russia is a unique country in this respect: its proven oil and gas resources are estimated at 74.4 billion barrels (6.2 percent of the world's total), which makes it the seventh oil-rich country in the world; it comes second after Saudi Arabia as an oil exporter.

The Energy Strategy of Russia until the Year 2020, which envisages that "the role of any country on the world's energy market determines, to a great extent, its geopolitical influence" showed a

[1] See: N. Perfiliev, "Perspektivy i problemy rossiysko-kitayskogo neftegazovogo sotrudnichestva," *Indeks bezopasnosti,* No. 1 (84), 2008, pp. 37-50.

clear understanding of the importance of energy as a geopolitical factor.[2] Today, the European Union is the main exporter of Russia's Soviet inheritance, which makes it dependent on European exports—86 percent of the exported oil and 92 percent of the exported gas. This explains why the Energy Strategy insisted on diversified exports—to the APR and South Asia, the two regions with the world's highest growth rates, which have already changed the structure of the world's oil demand. The APR's share in Russia's oil export should increase from the present 3 to 30 percent in 2020, while gas exports are expected to rise to 15 percent. The Strategy describes China, Japan, South Korea, and India as the most promising partners.

On the other hand, the European Union is aware of its great dependence on Russia's exports: 28 percent of oil and 40 percent of gas. In the last 35 years the share of Asian gas in Russia's oil export to Europe became fairly noticeable in the overall volume of the world's oil trade: back in 1970 the Soviet oil pipelines moved 46 billion cu m; in 1990, this volume rose 7-fold; and in 2004, twice as much again (680 billion cu m). The transit disagreements with Ukraine in January 2006 and Belarus in January 2007 forced the EU to concentrate on diversifying its gas exports to diminish its dependence on Moscow.

In an effort to push down gas prices Brussels is exploiting the contradictions between the gas producers (Russia and Kazakhstan in particular) by initiating investment projects for building main gas pipelines that would exclude Russia. This means that the SCO gas exporters are competing with Russia on the European gas market.

Viewed through the prism of Russia's interests these factors reveal other, relatively recent, geopolitical trends mainly caused by NATO's changed politics in Eurasia and the prospects for Central Eurasian energy projects.

U.S. Senator R. Lugar, who contributed the draft law On Energy Security and Diplomacy, believes that an embargo on energy deliveries to any of the NATO members should be regarded as an "attack" on the Alliance: "The use of energy as a weapon of sorts is not a vague theoretical threat that belongs to the future. It is what is happening today." The senator suggests that military as well as economic methods should be applied: he had in mind alternative hydrocarbon routes and alternative energy sources. The 2006 NATO Riga Summit envisaged this in its final declaration, while the Alliance widened its presence in Eurasian energy producers and transit countries (accelerated NATO membership for Ukraine and Georgia, two transit countries, is one such measure). In the future, Azerbaijan, another oil and gas exporter, will be incorporated into NATO to make it the dominant force in the Black Sea region and to allow it use military force to protect the interests of its oil and gas companies in the Caspian.

Europe's concern over the unstable supply of energy resources is understandable; it is equally clear why the European Union and NATO tend to attain energy security by buying gas on the borders at the wholesale price and keeping their markets close to the gas traders (the European intervention buyers profit from the difference between wholesale and retail prices). The EU and NATO want to profit from their guaranteed access to the natural resources of other countries, while keeping "the aliens" away from the European pipe system infringes on Russia's interests.

The West uses the Asian card to dig in and get a say in the distribution of Central Asian energy and other resources; it is working hard to extend the East European "sanitary cordon" to Russia's southern borders by making Turkey and Mongolia poles of the "alienation belt." Asia should be divided in strategic terms to make cooperation among Russia, China, and India much harder. Washington and Brussels are obviously seeking greater influence in the Central Asian neighbors.[3]

[2] "Energeticheskaia strategia Rossii na period do 2020 g." was endorsed by the RF government in 2003, available at [http://www.minprom.gov.ru/docs/stateg/1].

[3] See: A.F. Klimenko, *Energeticheskiy factor i ego vlianie na situatsiu v Tsentral'noy Azii i deiatel'nost ShOS. Shankhaiskaia Organizatsia sotrudnichestva: k novym rubezham razvitia,* IFE RAS, Moscow, 2008, pp. 129-152.

An "instability salient" along the Eurasian southern borders interferes with Russia's national interests. ODED-GUAM serves the same purpose; certain members of the expert community go as far as saying: "GUAM could play a role in the political projects of NATO and the European Union by filling the space between the control zone of the Euro-Atlantic structures and Russia … and creating a 'cordon sanitaire' along the perimeter of Russia's borders." The Alliance tends to use non-GUAM members to put pressure on Moscow.[4]

A new geopolitical and energy configuration consisting of both oil producers (Russia, Kazakhstan, and Uzbekistan) and oil consumers (China, Kyrgyzstan, and Tajikistan) is gradually emerging in the SCO space. There is a lot of competition for the Eurasian energy markets among them which tests the SCO members' readiness to pool forces in the energy sphere and look for a mutually acceptable cooperation model. The Central Asian republics willing to develop their contacts with the world in the energy sphere are gradually turning toward the West and China. This trend is virtually unstoppable: Kazakhstan is already moving its oil to China and laying its gas pipeline to this country for the simple reason that China, which needs ever growing amounts of energy, borders on Kazakhstan's energy-producing regions. Uzbekistan regards Russia as a factor of force in the region. We should bear in mind, however, that Moscow's mounting influence might force Tashkent to turn back to the United States. The process is underway: Uzbekistan is restoring its ties with the West disrupted by the Andijan events.

The far from simple relations among the local states (they cannot agree on the joint use of local water resources, etc.) are interfering with the energy projects in Central Eurasia. The very slow progress in forming a civil society and the clan-based institutions of power do nothing to promote fruitful cooperation in the energy sphere: there are too many power abuses and too much corruption in the energy projects; illegal financial institutions and money laundering are two other dangers.

Energy Projects in Central Eurasia: Competition and Pragmatism

Today, with several pipelines already in place, there are three rival projects of gas export from Asia: the Caspian gas pipeline across Russia; the trans-Caspian pipeline that bypasses Russia, and the mainline to China, which makes Kazakhstan and Turkmenistan the key partners. Relatively recently the United States regarded Azerbaijan as its main partner—today Washington has turned its attention to Ashghabad and Astana as the critically important capitals. Russia, China, Iran, and Uzbekistan have not abandoned their attempts to spread their influence to Kazakhstan and Turkmenistan.

As confirmed pragmatists the Central Asian leaders sell at the highest prices. The Turkmen leaders are prepared to cooperate with all the key players: they have opened their doors to Western and Russian businesses, however are determined to use all bids to their advantage. They claim that they are prepared to diversify their supplies, but insist on moving gas only to their own borders.[5] This means that China, America, and Europe can count on their share of Turkmen gas. When it comes to the gas export routes suggested by Moscow Ashghabad manifests its Oriental nature: it wants neither close political relations with nor complete alienation from Russia.

[4] S. Tolstov of the Ukrainian Institute of World Economy and International Relations is one such expert. For more detail, see: S. Tolstov, "The Guam Phenomenon: Its Experience as a Regional Cooperation Structure and its Prospects as an International Organization," *Central Asia and the Caucasus*, No. 3-4 (51-52), 2008, p. 46.

[5] See: S. Smirnov, "Tri kaspiyskie truby—transkaspiyskiy dolgostroy, prikaspiyskiy proect i kitayskiy ieroglif," *Ekspert-Kazakhstan*, available at [http://www.centrasia.ru/newsA.php4?st=1191447240].

The Caspian project. Russia and its Central Asian partners will obviously profit from it: it will create a de facto gas cartel that will keep gas prices for Europe under its control in the Russia-Central Asia format. The line will hug the Caspian coast of Turkmenistan and Kazakhstan to reach Russian territory where it will join the Gazprom network. The Russian Federation, Kazakhstan, and Turkmenistan have already reached an agreement; it was expected that construction of the new pipeline with a carrying capacity of 30 billion cu m would be launched in 2007. In the absence of an inter-governmental agreement needed to set the deadline and start feasibility studies the construction stage was postponed. The sides are still working on a joint document and have agreed on the principles of price formation, which can be described as a giant step forward.

It goes without saying that the European Union treats the project and the agreed gas prices with a great deal of irritation; its leaders have repeatedly voiced their extreme disappointment with the fact that gas will be moved across Russia. The EU is concerned with Russia's monopoly and fears that it may "strangle" the West by raising gas prices or, if Europe refuses to pay, discontinue gas supplies. Washington shares the Europeans' concerns and has repeatedly warned Kazakhstan and Turkmenistan that the Caspian pipeline is not only highly unwelcome but also bad for their image as reliable gas suppliers. The fact that in an effort to prove its reliability Russia is building two main pipelines (Nord Stream across the Baltic Sea and the South Stream across Bulgaria and Greece) is doing nothing to alleviate Western fears.

The pipeline to China. In June 2007 the president of Turkmenistan not only reached an agreement with China on gas supplies but also signed an agreement under which the China National Petroleum Company acquired a license for Bagtyiarlyk, one of the republic's richest gas fields. The president of Kazakhstan, in turn, and the chairman of China signed several agreements on a gas pipeline from Turkmenistan that would cross Kazakhstan before it reached China. The main pipeline with an annual carrying capacity of up to 40 billion cu m should be ready by 2010; at the Chinese-Kazakhstan border it will form two branches to reach Turkmenistan via Uzbekistan and the Beyneu fields in western Kazakhstan.

Kazakhstan and Turkmenistan will thus acquire an effective economic tool for dealing with Russia; in the future both Astana and Ashghabad will reach the Chinese energy market, thus burying Gazprom's monopoly on the Turkmen market. This is probably the rationale behind Gazprom's agreement to pay $100 per 1 thousand cu m of Turkmen gas in 2007-2008; starting in 2009 gas prices will follow the world market trends. The agreement is valid until 2028. This means that complete control over Turkmen gas export to Europe will cost the Russian company much more than it expected. If Gazprom tries to impose crippling conditions on the republic, Turkmenistan will send its gas to China, which is ready to consume any amount of surplus fuel. In this way Turkmenistan has already acquired a lever of pressure to be used against Gazprom and (if the Trans-Caspian project is implemented) against European customers. So far, the project is stalling: there are neither feasibility studies nor an approved budget (on Turkmen territory, however, construction is underway!). This approach and the not too clear sources of the gas needed to fill the pipeline make the project's future vague to say the least, yet China is likely to do everything to implement the project.

The Trans-Caspian project. The United States is actively lobbying trans-Caspian pipelines to Azerbaijan; it has become firmly resolved to move the bulk of Turkmen gas across the Caspian. Washington hopes that the signed agreement will urge Kazakhstan to join. Azerbaijan is equally interested in the project: Washington convinced Baku not only to invigorate its contacts with Ashghabad but also to invite it to act together when dealing with regional problems and tasks.

In 1996 Washington declared the Black Sea-Caspian region an area of its strategic interests and became resolved to build a new architecture of pipelines by-passing Russia and Iran. In 2000 disagreements among the sides nearly buried the idea. In 2002, however, gas companies of Austria, Hungary, Rumania, Bulgaria, and Turkey initiated the Nabucco pipeline as a follow-up of the project. It

was expected that the western part of the Nabucco pipeline would cross Georgia, Turkey, Bulgaria, Rumania, and Hungary to reach Austria. This is feasible if a stretch of the pipeline is laid from Aktau to Baku along the bed of the Caspian Sea. The planned annual carrying capacity is 26-32 billion cu m; the initial cost is estimated at about $6 billion; it is expected that the project will be completed by 2012. Earlier Washington and Brussels did not regard the cost as justified, however the skyrocketing hydrocarbon prices and the clash with Moscow's economic interests changed their opinion. The project, however, seems to have several serious flaws:

- *First,* Azerbaijan, the most enthusiastic lobbyist, will be able to supply only half of the required amount in even another 8 to 10 years, which means that the project can only be justified if Kazakhstan and Turkmenistan become its main suppliers.[6] Having joined the BTC pipeline Astana will probably prefer to stay away from the new project to avoid further confrontation with Moscow. Moreover, the republic will sell some of its gas to China; another portion will be exported through Gazprom, while a certain amount will be domestically consumed. This means that there will be practically no gas to load the new project.[7] Astana and Ashghabad are building tanker fleets of their own and have displayed a lot of interest in liquefaction technologies—they are obviously unwilling to be chained to the pipeline project. Ashghabad has already signed an agreement under which, starting in 2009, it will sell 30 billion cu m of gas to China for the next 30 years. Under the same document Turkmenistan pledged to compensate for all possible gas shortages with other resources. No one knows whether the republic has enough gas to cover its obligations under even one project. The concerted expert opinion about Turkmenistan's gas resources (about 15 trillion cu m) and the Turkmen leaders' assessments (from 25 to 45 trillion cu m) greatly vary, which forces the key lobbyists of the energy projects to place their stakes on Kazakhstan as the most responsible of the potential partners. The above suggests that in practical terms Turkmenistan can hardly be regarded as a reliable long-term partner: it has no considerably large fuel resources to load the trans-Caspian pipeline either today or in the near future.
- *Second,* the president of Turkmenistan, who is obviously fond of holding forth about diversified routes for Turkmen gas, prefers not to quarrel with Russia, at least for the time being. To meet its obligations to Moscow and the West Ashghabad has to double gas production. The figures testify that growth rates are negligible while the republic trails behind the goals it sets itself in oil production year after year. Analysts doubt that Turkmenistan can increase gas exports considerably and honor its obligations: in 2006 the growth rate was a mere 1 percent.
- *Third,* the project is burdened by other problems: it should be lain on the Caspian seabed, the tectonically unstable area. Technical problems aside, the sea's unsettled status is another hurdle. So far, in the eyes of international law, the sea remains undivided which allows Iran to capture Azeri vessels engaged in oil prospecting in the stretches which both countries claim as their own.
- *Fourth,* there are military-political factors: the pipeline will cross Azerbaijan and Georgia, countries living in the "eve of war" context. Baku does not exclude the use of force to resolve the Nagorno-Karabagh conflict, while Georgia still hopes to sort things out with its break-

[6] According to Minister of Azerbaijan N. Aliev, "by 2015 we shall be able to reach the maximum level of 20 billion cu m a year," available at [http://www.centrasia.ru/newsA.php4?st=1191447240].

[7] In March 2007 Foreign Minister of Kazakhstan concluded his meeting with EU representatives and the foreign ministers of Germany, Uzbekistan, Tajikistan, and Turkmenistan with: "It has not be proven that the Trans-Caspian gas pipeline, which will move gas from Asia to Europe outside Russia, is really needed."

away republics (South Ossetia and Abkhazia). The "eve of war tension" was registered recently, in June 2008, which means that in the event of armed clashes the BTC and new gas pipeline might be damaged. On the other hand, one cannot exclude America's military action against Iran which might respond with bombing the pipeline infrastructure.

The above suggests that Russia and the West (the U.S., NATO, and EU) have different plans in relation to the Central Asian energy resources and that the trans-Caspian project looks the least promising of all.

Energy Cooperation within the SCO Format: Strengths and Weaknesses

When it comes to developing their energy sectors the Central Asian states prefer Russia as their traditional partner: they need access to Russia's energy transportation system, its R&D, and its assistance in geological prospecting. Russia is a capacious fuel-consuming market and the key transit country that links the region with the rest of the world. Moscow, in turn, needs the Central Asian countries' raw material and industrial potential and their infrastructure, which contribute to Russia's economic and military security; Moscow also prefers to secure its control over the energy flows to Europe and the APR.

Today bilateral energy cooperation between Russia and the Central Asian republics is going strong even though the progress is not smooth. Russia lacks long-term purpose-oriented plans in the region and is very vague about the region's prospects within the structures in which Russia is also present. It is still unclear how Russia intends to implement its Conception of Long-Term Socio-economic Development of the RF until 2020 in Central Asia. The document's draft offers no clear Central Asian strategy. The absence of a long-term purpose-oriented Central Asian strategy and its clarification within the structures in which Russia is a member might negatively affect Russia's national interests. Despite the rapidly growing economy Russia's financial and economic contributions to the region remain limited. Russia's trade and economic cooperation is concentrated on fuel export carried out on a bilateral basis. The bilateral basis is not strong and rather diversified (see Table 1). Joint investment projects are few and far between; the existing ones are limited to trade and economic relations. This means that cooperation between Russia and the Central Asian republics can hardly be described as balanced.

Russia-Kazakhstan. As a country rich in hydrocarbons and uranium Kazakhstan poses itself as a great player on the global market with geopolitical and geoeconomic interests of its own. Its problems, which are very similar to Russia's, are caused by the rising oil prices and the rather ineffective management of oil resources. Having increased its financial resources Kazakhstan is trying to re-nationalize the foreign owners' oil production assets which may cause complications in its relations with foreign oil companies. The republic's relations with Western corporations and LUKoil of Russia have already suffered.

Oil extraction in Kazakhstan is gradually increasing to reach an annual level of oil production of 80 million tons by 2010 and 130 million tons by 2015. The local pipeline system will never cope with these loads, which means that "black gravy" export is developing into a great strategic problem for the local oil industry. Kazakhstan, which moves the bulk of its oil across Russia (much smaller amounts are sent to Iran by sea), will have to pool its forces with the Russian Federation. Likewise, the Russian pipelines cannot cope with the total amount of oil produced in Kazakhstan: diversification of oil ex-

Table 1[8]

Russia's Trade with the Central Asian Countries in 2000 and 2006 (*million dollars*)

Countries	2000		2006	
	export	import	export	import
Kazakhstan	2,247	2,200	8,976	3,840
Kyrgyzstan	103	89	561	194
Tajikistan	56	237	377	126
Uzbekistan	274	663	1,087	1,290
Total	2,680	3,189	11,001	5,450

port routes is the only answer. There is the BTC and the Atyrau-Alashankou pipeline via which oil will reach the West and China, respectively. Kazakhstan is actively involved in setting up fuel routes through the Russian Azov and Black Sea ports via the Volga-Don canal; it is lobbying a new canal in the Kumo-Manych depression. The agreement on the Caspian pipeline is extremely important in this context: Kazakhstan will become a transit state which will move 80-100 billion cu m of Turkmen and Uzbek gas to Russia and China.[9]

So far, the republic's oil sector, which is boosting oil production, cannot be called a driving force behind its economy, which should be kept in mind when considering the future of its oil sector and Kazakhstani-Russian relations. Today, foreign producers dominate the market of oil production equipment with an 80% share, while attempts to change the situation are failing. This means that the republic's companies might cooperate with Russian oil corporations for outsourcing.

Russia-Uzbekistan. Their mutual interests (concentrated in the fuel and raw material context and the oil and gas industry) are much more varied than those between Russia and other countries. During his March 2007 visit to Tashkent, to which Gazprom and LUKoil actively contributed, the Russian prime minister discussed future cooperation in the oil and gas sphere. Russian companies will invest in boosting gas exports from Uzbekistan. Gazprom and LUKoil will invest in the prospecting, production, and transportation of Uzbek energy resources. Soiuzneftegaz signed an agreement under which it will invest over $2 billion in the oil and gas projects in Uzbekistan in the next 36 years. Today, its subsidiary company, Soiuzneftegaz Vostok Ltd., is extracting oil in two fields and making preparations for the complex development of gas-condensate resources in Southwestern Gissar. The oil production situation can hardly be described as positive: resources at the already developed oil fields are depleting, production is dropping, and the oil refineries in Ferghana and Bukhara are underloaded; the same can be said about the republic's gas resources. At the current production rate, the confirmed gas resources will be completely depleted in about 33 years; and the oil supplies will end in 11 years.

Russia-Tajikistan. Russia's involvement in developing the republic's energy resources helps to maintain its social and political stability and promote its economic progress. Tajikistan's hydropower

[8] See: *Rossia v tsifrakh 2007,* FSGS, Moscow, 2007.

[9] See: V.A. Matveev, "Zachem Kitaiu gazovye kladovye Tsentral'noy Azii?" *Nezavisimaia gazeta,* 12 February, 2008.

complex, the key to regional stability, is in the center of Russia's interests. It is seeking cooperation with Tajikistan in the energy sphere, first, because of the high energy prices and, second, because Russia is seeking a stronger geopolitical foothold in Central Asia. Dushanbe, in turn, needs cooperation with Moscow to expand energy export to Russia; this calls for the modernization of power lines and construction of the South-North line.

The sides' mutual desire to develop bilateral cooperation is clouded by several problems. The Tajikistan leaders tend to underestimate the fact that Russia's economic entities present in the republic are guided by the local market conditions. This is particularly seen in the process of building the Rogun hydropower plant. Other problems are rooted in the situation on the Tajik energy market, a highly competitive area with several active rivals. America has already announced its readiness to invest up to $8 billion in the republic's economy, build the Dashtijum hydropower plant with a 4 million kW capacity, and invest in building power lines. Iran, Pakistan, and Turkey, in turn, come forward with tempting investment plans when Russia steps up its involvement.

Russia-Kyrgyzstan. The republic's energy sector, as well as several other branches, remains attractive for Russian investments mainly because gold, the main export commodity, is controlled by Western corporations. Russia's presence in the country's hydropower complex is stabilizing regional water and energy supply and accelerating the republic's economic advance. The situation, which is marred by problems that defy easy solutions, is reminiscent of that in Tajikistan (this is especially true with respect to the Rogun hydropower plant). Construction of the Kambaratinskaia-2 hydropower plant is an example. The government of Kyrgyzstan and RAO UES of Russia signed several relevant agreements, but the project has still not begun. On the other side, cooperation with Gazprom in gas prospecting and production may develop into an important and positive factor. The Russian company also plans to move toward reconstructing old and building new transportation capacities under the long-term agreement on cooperation in the oil and gas sphere. Under the same agreement the sides will pool forces to restore the compressor stations at the underground Mailu-Suu gas storage reservoir; the republic's gas sector will receive new equipment.

Russia-China. The Russian Federation is the fifth largest oil exporter to China. The two countries' cooperation in the energy sphere is the most important element of their trade and economic relations. At one time, Russia's Minister of Economic Development and Trade Gherman Gref pointed out that to increase "black gravy" export to China Russia should more actively develop Siberia and the Far East and expand the oil export infrastructure. In this context wider cooperation between Russia and China in the energy sphere is viewed as an instrument of economic development of Eastern Siberia and the Far East. The energy-related infrastructure will encourage industrial development and the raw material sector. Progress in the oil and gas industry calls for not only traditional use of energy resources, it also suggests increased oil and gas refining and progress in petrochemistry.

Most experts in China and outside it agree that Russia is potentially the most promising partner. Here are two arguments in favor of this: Chinese and Russian interests are mutually complementary—Russia will have to develop its Far East through progress in the energy sphere. China needs more diversified oil supplies—today, it mainly relies on oil delivered from the Middle East, the world's most unstable region. Russia and China have common borders that make oil and gas deliveries cheaper, but their potential has not yet been fully tapped. Today, oil is delivered by railway.

Real cooperation in the energy sphere is a relatively recent phenomenon: until Vladimir Putin's visit to China there were serious doubts about its advisability.[10] On 31 December, 2004 Premier of Russia Mikhail Fradkov signed an agreement on designing and constructing the Eastern Siberia-Pa-

[10] These doubts were fed by the criminal case against the YUKOS owners who favored closer cooperation with China, Japan's statements about its readiness to invest in the construction of a pipeline to the Pacific coast, and other facts.

cific oil pipeline. Today, the long preliminary period during which the oil lobby, the government, and ecologists were seeking a coordinated agreement on the pipeline route is over. Transneft presented a project of the Taishet (Irkutsk Region)-Perevoznaia Bay (Primorsk) pipeline to be completed in 2020. The project's estimated cost is $16 billion. It will bring Russian oil to the APR countries; China will receive 30 million of the planned 80 million tons.[11]

Closer cooperation with China will strengthen its position as the main market for Russian energy resources. As a monopoly consumer similar to the EU in the West it may present certain risks. No wonder there is no agreement on the issue: Japan and the West have fairly active lobbyists among the Russian political elite. The Russian Railways Co favors the idea (which has supporters on the other side of the border) of moving oil by rail. Speaking at a regular meeting of the Russian-Chinese Subcommittee for Energy Cooperation held on 14 October, 2006 the Chinese asked Russia to bring up its annual oil exports to China to 40-45 million tons.

Prices are another hurdle: China wants more oil at lower prices; so far there is no agreement on pricing principles between the two countries. The situation in the gas sphere is more or less similar: there is little or no progress because China insists on buying gas at below-market prices. On the other hand, in the southeast, China is busy building up liquefied gas facilities, which leaves one wondering: its readiness to buy much more expensive fuel makes its haggling with Moscow incomprehensible—Russia has many potential customers. China, which is actively seeking contacts in the Central Asian hydrocarbon sector, is adding frenzy to the already stiff competition among Russian, Chinese, and Western companies.

Multisided cooperation. The SCO is steadily developing into an integration group of worldwide dimensions. Internationalization of its members' economic activities is resulting in the gradual emergence of integrated economic complexes. The mechanisms of multisided cooperation are one of the instruments: there are meetings at the level of ministers of foreign economic activities, seven special workgroups for cooperation in specific economic spheres, the SCO Forum, the Business Council, and the Inter-Banking Association. Multisided infrastructure projects are underway; the idea of an SCO Energy Club is being discussed. The dynamically developing Organization compares favorably to similar CIS structures: it is much more pragmatic and its aims within the agreements reached are realizable (see Table 2).

Table 2

Figures Related to Execution of the Decisions Adopted by Russia and the CA Countries in 1991-2008

Country	Signed	Came into force	Percent of those signed
Russia	264	210	80
Kazakhstan	267	176	70
Kyrgyzstan	270	212	78
Tajikistan	269	208	67
Uzbekistan	121	68	56

[11] To implement this plan the pipeline will branch off to China at Skovorodino. It is expected that the branch to Datsin in China will be completed in 2008.

If managed in a constructive way integration processes will lead to deep-cutting structural economic changes in all the countries involved and numerous economic ties among them. This belongs to the distant future since the political and economic as well as other changes at the global and regional levels are invariably present in inter-governmental relations within the SCO. In the future the SCO countries will probably need Russia as a partner in the energy sphere, but we cannot exclude stronger rivalry under the impact of "outside" powers and organizations.

Obstacles to Cooperation within the SCO

The following interferes with energy-related cooperation within the SCO:

- *First,* multilateral partnership is inevitably extensive. More than half of the 330 documents adopted so far are of a procedural or organizational nature; 38 of them relate directly to economic cooperation, which means that it is difficult to fund multilateral projects. So far Russia has been treating the money problem with caution, which made cooperation between the Central Asian republics and Western and Eastern partners even more tempting.
- *Second,* customs control of the interstate exchange of electric power is inefficient: it barely assists the energy systems to function under the most effective parallel conditions. In the absence of concerted approaches to electric power transit a protocol on simplified customs procedures had not yet been adopted. This means that the Russian Federation and the Central Asian countries cannot agree on mutually acceptable tariff procedures which, in turn, interferes with forming a common energy market and slows down the development of transit potential in all the interested states.
- *Third,* the discrepancies between the national legal bases of Russia and the other SCO countries related to the development of oil and gas fields, trade in gas and oil, as well as moving the energy resources are persisting, which does nothing to promote better relations between the state and private companies engaged in the energy sphere. Some regulations of national tax legislation contradict the integration agreements and treaties.
- *Fourth,* the national economy based on outmoded energy equipment cannot become competitive because it uses too much fuel. While in Russia 1 kW/h needs about 335-340 grams of conventional fuel, in Europe the figure is 210-250. The figures are much higher in the SCO.
- *Fifth,* most oil and gas companies of Russia and the Central Asian republics prefer to export hydrocarbons to the detriment of the national markets. Russia and Kazakhstan export over 70 percent of the total amount of produced fuel. This creates periodical crises of fuel supply at the height of agricultural seasons. Domestic refineries and related enterprises (such as the production of synthetic materials) are underloaded or even left idling.
- *Sixth,* cooperation between Russia and the SCO countries on the world energy market leaves much to be desired, which makes it hard to reach a coordinated approach to the rational use of their integrated oil and gas potential and a common vision of how the oil and gas branches should function in the interests of the economies of the SCO countries. This somewhat slows down integration. The absence of a complex approach toward cooperation between Russia and the Central Asian countries in the energy sphere is the greatest obstacle on the road toward closer relations in this sphere; this also encourages the world's main players to

seek access to the Central Asian hydrocarbon resources. On the other hand, the Central Asian countries are maneuvering in an effort to profit from the contradictions between Russia, the West, and China. Finally, interaction in the energy sphere is loosely connected with the strategies of socioeconomic development and integration in the Central Asian countries, which breeds social stratification and political instability. There are wide gaps between the per capita GDP and average wages for identical work in Russia and the Central Asian republics (see Table 3).

Table 3[12]

Basic Socioeconomic Indices of the Central Asian SCO Members (2008)

Indices	Kazakhstan	Uzbekistan	Kyrgyzstan	Tajikistan
Population (million)	15.581	28.51	5.166	7.163
Per capita GDP (US dollars)	5,043	598	536	424
Economic growth (percent)	8.5	9.5	7.3	7.3
Average wages (US dollars)	434	210	120	60

In Russia, per capita GDP is $9,872; and the average wage is $700.9. The figures in the developed western and eastern countries are even higher. On the whole, if perpetuated, the problems of cooperation between Russia and the Central Asian republics might deteriorate into threats and challenges to their continued development in the energy sphere.

How to Make Energy Cooperation within the SCO More Efficient

Long-term cooperation between Russia and the Central Asian countries in the energy sphere within the SCO calls for an integrated development strategy of the entire Organization. Today, unilateral economic advantages have been pushed to the back burner by the need to make joint investment infrastructural projects more efficient.

This calls for stricter state regulation that should take the form of agreed energy policies of the SCO members in the Energy Club and the Water Consortium formats. The time has come to move away from general deliberations about these structures to practical efforts aimed at setting them up, along with other regulating mechanisms. The Energy Club, for example, should arrive at agreed transportation tariffs, level of preferences, taxes, and customs fees; it is even more important to fix energy export prices. The Club will make it easier to reach compromises; it can also be used to coordinate the SCO oil producers' market tactics by achieving cooperation between gas producers and gas users and

[12] Based on polls carried out in 2003-2008 by Eurasia21.com (Public Opinion Studies Center Ijtimoiy Fiqr), SIAR-Bishkek (the Obshchestvennoe mnenie Fund) Gallup, Vilmorus, and Baltic Surveys.

diversifying export routes. This will lead to a concerted energy strategy in full conformity with the members' geoeconomic interests and supply the pattern for new relations leading to the economic revival of its members.

The SCO countries may fix long-term foreign economic aims and seek leadership in gas trade on the world markets based on geographical and product diversification. They can contribute to building global energy infrastructure and drawing up rules for the world energy markets. This is especially important in the context of the existing agreements between the Central Asian countries and Russia on using the net back principle when fixing gas transfer prices starting in 2009. This may change the entire architecture of gas flows from Central Asia by lowering the efficiency of gas supplies to Europe, with the exception of Russia. Capital-intensive gas production and transportation calls for huge investments.

It is no less important to formulate clear and understandable limits on foreign investments in this sphere and transparency of conditions under which foreign capital can be attracted. The SCO gas-producing countries should fully tap Russia's negative and positive experience in its relations with foreign investments. Kazakhstan, which is facing a similar problem in Kashagan, and Uzbekistan, which is planning oil and gas prospecting and development of the Ustyurt fields and elsewhere, should take into account Russia's experience of joint projects with Western companies in Sakhalin in the product-sharing format. The Federal Law the Russian Duma passed in 2008 On the Procedure for Realizing Foreign Investments in Economic Societies of Strategic Importance for the Country's Defense and State Security, which regulates access of foreign capital and formulates the rules on the national market and attraction of investments, can be used as a positive example.

Today, the level of bilateral relations between the Russian Federation and the Central Asian republics is not high enough to fortify their positions on the world energy market. These relations should develop into state policies, the SCO members should come up with clearer policies; business relations with other states in the energy sphere should also be encouraged, while the energy market, the gas market in particular, should be liberalized. This means that these processes should be synchronized and harmonized with similar processes going on in the countries in the zone of common interests.

The planned SCO Development Fund should become an instrument for correcting the trend toward inadequate funding of joint energy projects. To achieve this, the most developed of the SCO members (Russia, China, and Kazakhstan) should increase their contribution. China is inviting its colleagues to accelerate efforts by channeling most of the money designed for analysis and feasibility studies of multisided projects and their realization into the Development Fund.

Broader powers of the constituencies of the Russian Federation and local administrations in the sphere of international relations could encourage transborder relations between Russia's regions and the Central Asian republics. To remove all the problems in this sector, customs legislation should be coordinated (this is especially important in the field of customs and other related procedures), tax and other fees related to transborder trade should be lowered, while railway tariffs should be harmonized and unified.

In Lieu of a Conclusion

Cooperation between Russia and the SCO countries in the energy industry should be boosted through a coordinated strategy that should identify the forms and methods of partnership (including cooperation with external actors). The document should specify the aims of such cooperation, etc. No bureaucratic games of document production should be allowed. One basic document—the SCO Development Strategy based on corresponding concepts related, among other things, to energy coopera-

tion—will suffice. This will call for concerted efforts of the expert communities of the member, and probably of the observer, countries.

Russian experts can proceed from the Conception for Ensuring the National Interests of the Russian Federation in the Region, which is closely connected with the Energy Strategy of Russia and the Concept of Long-term Socioeconomic Development of the RF until the Year 2020 (especially with its section dealing with the need to modernize the eastern part of its territory and the Central Eurasia energy projects). The new document should identify the means and methods for overcoming the current economic contradictions and show the prospects for interstate programs at each of their stages expected to promote closer industrial and scientific and technical integration of the national economies by setting up joint ventures and multisided structures. We should asses the already existing and potential regional challenges and threats in the mid-term perspective, as well as the potential changes. In other words, we should be fully aware of the prospects for joint activities and the expected results. This will call for harmonized interests among all the sides.