

# ENERGY POLICY AND ENERGY PROJECTS

## ENERGY FLOWS IN CENTRAL ASIA AND THE CASPIAN REGION: NEW OPPORTUNITIES AND NEW CHALLENGES

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### ABSTRACT

**W**hen the Soviet Union collapsed, newly independent states appeared on the shores of the Caspian and in expanses of Central Asia, the horizons of which have significantly widened due to the development of hydrocarbon reserves. This has been essentially promoted by the formation of export pipelines in the east-west direction. We will note that the Soviet pipeline system was created in the north-south direction and intended for managing flows of oil and gas in the interests of the entire state. As for the new hydrocarbon-rich states of the Caspian Region and Central Asia, changing the direction of energy

flows has become a key task of their foreign and domestic policy. It is no accident that in the last 15-20 years, regional and extra-regional players have become involved in an extremely intense fight for access to the Caspian's oil and gas, as well as actively engaged in building infrastructure for their transportation to the consumers.<sup>1</sup>

At the same time, despite the many forecasts of various research centers and oil

<sup>1</sup> See: R.N. Kazharov, "Resursnoe znachenie kaspiskogo regiona dlia energeticheskoi bezopasnosti v Evrazii: dobycha i eksport prirodnogo gaza," *MGIMO University Bulletin*, No. 6, 2011, pp. 183-190.

and gas companies, the production of hydrocarbons and implementation of pipeline projects has been very slow. The reasons for this include the lack of modern technology in the production branches, undeveloped infrastructure, insufficient financing, and low demand for hydrocarbons from extra-regional states. This is why the forecasts about hydrocarbon production volumes and delivery deadlines from the Caspian Region and Central Asia to the external markets are largely unreliable.

Nevertheless, in the past 20 years, the Caspian and Central Asian countries have succeeded in forming new energy flows and their fields are capable of satisfying the growing needs of the European countries and China for oil and gas.

Among the large-scale hydrocarbon delivery projects being discussed, special mention can be made of the Southern Gas Corridor, the Trans-Caspian Hydrocarbon Transportation System, the Kazakhstan Caspian Transportation System, and the Great Energy Road, each of which is a separate pipeline. These projects are aimed at creating a new pipeline structure called upon to ensure the delivery of hydrocarbons in the east-west direction.

Energy flows are irrevocably tied to the hydrocarbon resources of Kazakhstan (the gas condensate field of Karachaganak and the oil fields of Kashagan and Tengiz), Turkmenistan (the gas field of Galkynysh), and Azerbaijan (the oil field of Azeri-Chirag-Gunashli and the gas field of Shah Deniz).

**KEYWORDS:** *Central Asia, the Caspian Region, hydrocarbon resources, energy flows, pipelines.*

## *Introduction*

The formation of new energy flows began after the disintegration of the Soviet Union when the new Caspian and Central Asian states were able to independently define the vectors of their foreign policy, including with respect to developing, producing, and exporting hydrocarbon resources. Western energy companies helped the Caspian and Central Asian countries to solve this task, particularly in the 1980s-1990s.

Capital began accumulating in the energy industry and new hydrocarbon export projects appeared when AMOCO obtained the right to produce oil in Azerbaijan (with a share of 40%)<sup>2</sup> and talks were held on Chevron's participation in developing the Tengiz field in Kazakhstan.

Future energy flows were formed under the influence of extra-regional states, which placed the priority on their own political interests. In turn, the Central Asian and Caspian countries gradually began to realize that further development of oil and gas fields would promote their political stability and become a source for replenishing the budget. Moreover, pipeline projects were viewed as an alternative way to reduce their dependence on Russia.<sup>3</sup>

The establishment of new export routes went through several stages, each one being influenced by several factors (the geopolitical situation, the constantly changing data on hydrocarbon reserves, the level of demand for hydrocarbon resources, oil and gas prices in the world markets, etc.) and the technological opportunities available for assisting the development of hard-to-access fields. Never-

<sup>2</sup> See: V. Shorokhov, *Neft i politika Azerbaidzhana*, Center for International Studies-MGIMO, Moscow, 1997, p. 10.

<sup>3</sup> See: I.S. Zonn, S.S. Zhiltsov, *Kaspiiskiy region: geografiya, ekonomika, politika, sotrudnichestvo*, Edel-M, Moscow, 456 pp.

theless, Azerbaijan, Kazakhstan, and Turkmenistan successfully implemented a policy aimed at increasing the production of raw hydrocarbons and creating new export routes.

Toward the end of the first decade of the 21st century, projects were implemented in the Caspian Region and Central Asia that became a starting point for subsequent expansion of the pipeline structure and the creation of new export flows.

## Initiators of Alternative Energy Flows

Historically, the Caspian and Central Asian republics have always had to go through Russia to reach the West. So after the collapse of the Soviet Union, the strategy of the Caspian and Central Asian countries was primarily and mainly aimed at creating a new pipeline structure that would be part of the east-west energy corridor and circumvent Russia.

External powers have had a significant influence on forming the approaches of the countries of these regions to the creation of alternative energy flows. For example, the U.S. became more active in drawing the Caspian and Central Asian countries into participating in subregional transportation and energy hydrocarbon export routes that circumvent Russia, which primarily met the interests of leading American companies. It is no accident that representatives of the American administration espoused the following idea at the beginning of the 1990s, "Yes to Russian oil, no to Russian pipelines."

The U.S. actively promoted projects aimed at removing the Central Asian countries from the old post-Soviet integration ties in the political, economic, and military-technical spheres and reorienting them toward Afghanistan, as well as to the whole of South Asia in the mid-term. In other words, the matter concerned a break in partnership relations between the Central Asian countries and Russia, as well as preventing an increase in China's influence in the region. A similar strategy was also pursued in relation to the Caspian Region. What is more, the American administration pushed the Caspian and Central Asian countries to implement pipeline projects that were advantageous for Europe.

In keeping with Washington's intentions, the new communications structure was supposed to be decentralized and rely on multiple multidirectional formats. This essentially implied building new pipeline routes, reorienting the existing and future directions of energy deliveries, and changing the development vector of foreign trade and cooperation ties. The strategy officially declared by the U.S. consisted of creating multidirectional pipelines.

The tough economic rivalry that began in the second half of the 1990s around oil and gas pipelines has turned into a geopolitical struggle in which the Caspian and Central Asian countries, Western states, and large oil companies have become actively involved. In so doing, the main goal of the Caspian and Central Asian countries has been to attract extensive foreign investments, strengthen stability in the region, and enhance economic development based on the fuel and energy complex. The need to achieve this prompted the Caspian and Central Asian countries to look for alternative ways to transport natural gas and oil.<sup>4</sup>

The pipelines have turned into an independent source of income for the Caspian and Central Asian countries from the transit and direct production of raw hydrocarbons. However, the very fact of whether oil pipelines were being built or not was just as important.

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<sup>4</sup> See: G. Kemp, *Energy Superbowl. Strategic Politics and the Persian Gulf and Caspian Basin*, Washington, 1997, p. 26.

Developing attributes of a democratic political system (adopting new constitutions, holding alternative elections, and so on) of course raised the prestige of countries in the post-Soviet expanse and made them closer and more understandable to the Western countries, but this was clearly not enough for them to acquire long-term investments. In order to attract extensive financial resources, they had to create more reliable guarantees of stability, which the future oil pipelines were supposed to do. It was stability in each of the Caspian and Central Asian countries, supported by the governments and replenished by the broad participation of foreign oil companies, that would become the starting point for a new and powerful upsurge of investments into their economies.

The U.S. administration set itself the task of changing the direction of the existing oil flows and, in so doing, gain the opportunity to govern the region. In so doing, one of the main and essential requirements that the U.S. adhered to from the very beginning was that the new routes not pass through Russian or Iranian territory. This was the reason the Baku-Tbilisi-Ceyhan (BTC) project, seen as the main export pipeline bypassing Russia, appeared.

The U.S. never tired of assuring that it supported the pipeline policy of Azerbaijan, Kazakhstan, and Turkmenistan aimed at liberating themselves from Russia (or achieving less dependence on it) with respect to natural gas and oil deliveries to the European countries. However, after the collapse of the Soviet Union, the only realistic route for transporting hydrocarbons from these countries was through Russia. This generated a search for new export routes, in which both regional and extra-regional states were involved.

Putting the Baku-Supsa pipeline into operation (April 1999), intended for transporting oil from Azerbaijan's Chirag field, was the first step to creating the East-West corridor. The project found support after destabilization of the situation in Chechnia, through the territory of which a section of the Baku-Novorossiisk oil pipeline was laid. The length of the Baku-Supsa route through Georgia, via which oil was transported to the Black Sea ports of Turkey (Samsun), Bulgaria (Burgas), and Ukraine (Odessa), amounted to 850 km. There were plans to bring the oil pipeline's throughput capacity up to 10 million tonnes of oil a year.<sup>5</sup>

By 1998, it became clear that the U.S.'s plans to develop the Afghan route (meaning two pipelines—one for gas and the other for oil) were dragging on; for this reason, the BTC pipeline became the main chip in Washington's strategy in the Caspian Region.

Active promotion of the BTC pipeline resulted in the presidents of Turkey, Georgia, and Azerbaijan signing an Intergovernmental Agreement on the Transportation of Caspian Oil. This significant event took place on 18 November, 1999 at the OSCE Istanbul Summit. What is more, in the presence of Bill Clinton, who flew to Istanbul for this special purpose, the presidents of Azerbaijan, Georgia, Turkmenistan, and Turkey signed an Intergovernmental Declaration on the Principles for Implementing the Trans-Caspian Pipeline (gas pipeline).

It should be noted that at this time energy resources were not a key factor in U.S. interest in the region; they were more a way to manage the geopolitical processes in the Eurasian area. In so doing, the U.S. counted on gaining the main dividends from the efforts it exerted in the region in ten years. As Zbigniew Brzezinski wrote, "Clinton ... deserves credit for an initiative that subsequently has become an obstacle to a resurgence of Russian imperialism: the U.S. sponsored Baku-Çeyhan oil pipeline. The effect of this pipeline is to gain for the West direct access to Caspian and Central Asian oil."<sup>6</sup>

Alternative oil and gas routes appeared when the Western states began determining the prospects for their presence in the region. At the beginning of the 1990s, the U.S., which was just starting

<sup>5</sup> See: S.S. Zhiltsov, I.S. Zonn, A.M. Ushkov, *Geopolitika Kaspiiskogo regiona*, Moscow, 2003, p. 114.

<sup>6</sup> Zb. Brzezinski, *Second Chance: Three Presidents and the Crisis of American Superpower*, Basic Books, New York, 2007, p. 121.

to take its first steps in the Caspian Region, tentatively began shaping its strategy (including pipeline). In contrast to the Caspian states, which were primarily looking for economic and political advantages, the U.S. was guided by geopolitical considerations. Relying on the private capital of its oil companies and transnational corporations, it strove to gain a stronger foothold in the region, which made it difficult for Russian oil companies to participate in the exploration and production of Caspian hydrocarbons and their transportation to the external markets.<sup>7</sup>

The EU acted in the same way by gradually expanding its presence in Central Asia and the Caspian Region with the help of political and diplomatic mechanisms.

The activity of the world's large states in the Caspian and Central Asian countries, which has manifested itself in the most diverse forms (diplomatic, economic, military, etc.), is ultimately an illustration of basic geopolitical reality—aggravated rivalry over raw material sources, primarily over energy resources.<sup>8</sup>

The production and transportation of raw hydrocarbons to the external markets was viewed through the prism of a cardinal change in bilateral and multilateral relations in the region, as well as in the creation of new transport routes and the structure of economic relations.

## Azerbaijan: From Oil Export to Gas Flows

Azerbaijan initially placed the stakes on oil production, which has been carried out in the country from time immemorial. September 2014 saw the twentieth anniversary of the signing of an agreement on the exploration and development of the Azeri-Chirag and Deep Water Gunashli oil fields. Official Baku saw this agreement, which became known as the Contract of the Century, as a starting point for increasing oil production and its export to the European market (particularly since according to many assessments the Azeri fields have large oil reserves).

The interest of Western countries and oil and gas companies in Azerbaijan was largely related to its advantageous geographic location; the country could deliver hydrocarbons both to Russia and the West. The Western countries regarded Azeri hydrocarbons as an additional source of raw materials and as an alternative to Russian supplies in the future. The many forecasts about the possibility of increasing the production of large volumes of oil within a short time also made Azerbaijan a target of greater attention.

At the same time, Azerbaijan was not the end goal in the oil and gas policy of the Western countries; it was given an intermediate, transit role in their plans regarding the future export of Turkmen and Kazakh hydrocarbons.

At the end of the 1990s, after large new reserves of natural gas were discovered at the Shah Deniz field, Azerbaijan's energy policy began changing. Emphasis was placed on developing the field and transporting gas to the external markets, and Baku became more interested in the new pipeline projects.<sup>9</sup>

In the past 10 years, Azerbaijan has become an active participant in various pipeline projects made attractive by the gas production forecasts in the republic and the EU's political support.

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<sup>7</sup> See: I.S. Zonn, S.S. Zhiltsov, *Strategiia SShA v Kaspiiskom regione*, Edel-M, Moscow, 197 pp.

<sup>8</sup> See: I. Tomberg, "Central Asia and the Caspian: A New Stage in the Great Energy Game," *Central Asia and the Caucasus*, No. 5 (41), 2006, p. 20.

<sup>9</sup> See: S.S. Zhiltsov, I.S. Zonn, *Kaspiiskaia truboprovodnaia geopolitika: sostoianie i realizatsiia*, Vostok-Zapad, Moscow, 2011, 320 pp.

For a long time Azerbaijan supported the Nabucco European gas pipeline project, which was to deliver gas to Turkey and the EU countries. This ambitious project could not be implemented due to the insufficient volumes of Azeri gas and the reorientation of Turkmenistan, which began sending its blue fuel toward China.

The failure to implement the Nabucco gas pipeline project (as already mentioned, it was intended for delivering Turkmen and Azeri gas to Europe) caused adjustments to be made to Azerbaijan's policy, and the country began taking more active steps to implement its own pipeline projects in the EU direction.

In the past few years, Baku's main efforts have been directed toward building pipelines that are an integral part of the Southern Gas Corridor for joining the Baku-Tbilisi-Erzurum pipeline already in operation with new projects—the Trans-Anatolian and Trans-Adriatic gas pipelines (TANAP and TAP).

The TANAP project was given a new boost in September 2014; this was preceded by Azerbaijan's many talks with Turkey, an alliance that gave it a real opportunity to increase gas deliveries to the external markets.

It is planned to finish building TANAP and TAP (as an extension of TANAP) by 2019. The Shah Deniz field is the starting point—the 16 bcm of gas produced at it are to be pumped through Georgia, Turkey, Albania, and on to the south of Italy. It is presumed that 6 bcm of gas will go to Turkey and 10 bcm to the European countries.

Azerbaijan's turn toward the Balkans illustrated the situation that developed around the implementation of several gas pipeline projects offered by the EU.

Additional volumes of raw hydrocarbons from Azerbaijan will give the European countries the opportunity to play price games with Russia. However, the real impact of the additional volumes of Azeri gas on the European market and Russian policy may not be felt until much later; about \$45 billion will have to be invested in the development of the second stage of the Shah Deniz field alone, the investment decision regarding which was made in December 2013. This money will go not only to developing the field, but also to building infrastructure.

In 2014, Azerbaijan intended to produce 28 bcm of gas, and in the following years (keeping in mind the available capacities) reach a level of 30-32 bcm. Putting the second stage of Shah Deniz into operation will make it possible for Azerbaijan to expect an increase in gas production of another 16 bcm. This means that in 8-10 years, Azerbaijan's export potential could amount to around 25 bcm.

Baku is placing the stakes on the explored fields of Absheron, Umid, and Azeri-Chirag-Gunashli, at which deep deposits of gas have been found. After the development of these promising fields, Azerbaijan may be able to raise gas export by another 10 bcm, bringing its total volume up to 35 bcm, but no sooner than 2025. What is more, the level of gas production at existing wells and the changes occurring in the European market (they could be primarily related to a possible increase in deliveries of liquefied natural gas and shale gas from the U.S.) will have an impact on gas export volumes.

In order to transport additional volumes of gas, Azerbaijan will be able to use the BTE gas pipelines (with a design capacity of 16 bcm) and TAP (with a design capacity of 10 bcm and the possibility of increasing it to 20 bcm). The construction of TAP deprives the TANAP project of all meaning for Azerbaijan, since Baku needs to be able to fill its own pipeline.

## Kazakh Oil's Winding Path to the West

The idea of implementing the Trans-Caspian corridor (both by means of laying oil and gas pipelines across the bed of the Caspian and by delivering hydrocarbons by tankers) appeared after it became known that Kazakhstan has enormous oil reserves.

Construction of the Trans-Caspian Aktau-Baku oil pipeline, discussion of which began in the mid-1990s, was directly related to the BTC project. The initiators of this project believed that filling the export oil pipeline to the max would allow Kazakhstan to hook up to it, which, in turn, would incorporate this country more into Caspian hydrocarbon transportation.

According to the initial plans, the pipeline was to be finished by 2003-2004, but difficulties with developing the Kazakh fields and the constant revision of oil production forecasts interfered. Despite this, the interest of the Kazakh side in the idea of transporting oil via the Trans-Caspian pipeline did not wane. This is confirmed by the many statements by Kazakhstan's official representatives and the agreements signed with Azerbaijan in the 1990s and beginning of the 2000s.

Kazakhstan focused great attention on the Kazakhstan Caspian oil transportation system. It is intended for exporting Kazakh oil through the Caspian by tankers; at the first stage, deliveries should amount to 10 million tonnes with a rise to 38 million tonnes in the future.

It was planned to put this system into operation in 2010-2012. According to the estimates of Kazakh specialists, it was precisely during this time that production was to increase at the Kashagan field. They also thought that participation in the BTC project would make it possible to exercise the multivectoral principle when choosing ways to transport Kazakh oil to the external markets. Kazakhstan's policy regarding the Caspian region was based on such forecasts. What is more, the country signed various agreements with Azerbaijan on filling the BTC with its oil.

Without waiting for the new fields to reach their peak production level, Kazakhstan is trying to diversify delivery routes for its own oil. At the end of 2013, Kazakhstan decided to transport 4 million tonnes of oil through the Caspian, 3 million tonnes of which were intended for the BTC pipeline, while one million tonnes were to be delivered to the Georgian terminal of Kulevi on the Black Sea.

Keeping in mind the difficulties Kazakhstan is encountering in oil production, it can be confidently claimed that an increase in hydrocarbon volumes should not be expected before 2025. Prior to this, the current pipelines are capable of pumping Kazakh hydrocarbons to the external market.

In the near future, Kazakh hydrocarbons will be exported primarily through the pipeline system of the Caspian Pipeline Consortium. It is expected that after 2015, its capacity will rise to 67 million tonnes. Only after this might Kazakhstan need additional export capacities. This is why the interest in new pipeline projects is rising, including in the route through the Caspian Sea.

Incidentally, most of the forecasts regarding the development of Kazakh oil fields are preliminary, which is largely due to the constant postponement of the time oil production is to begin at the Kashagan field. Most of the declared plans regarding this field only exist on paper. This is leading to a decrease in Kazakhstan's role in oil deliveries to the external markets and a change in the balance of power in the Caspian region.

Despite the serious problems relating to the development of promising hydrocarbon deposits, Kazakhstan is still forecasting an increase in production. This is determining Kazakhstan's position when discussing export routes for potential volumes of hydrocarbon resources.

## Technological Trap

The geographic location of the countries on the eastern shores of the Caspian (Kazakhstan and Turkmenistan) has limited their opportunities to implement their energy strategy, as well as chances of gaining access to the European market. What is more, the relations between these countries and Russia have not been developing smoothly. However, technological difficulties are the main hin-

drance to gaining a stronger foothold in the oil and gas sphere. Kazakhstan, the energy strategy of which has been based on the expectation that production would soon start at the Kashagan oil field, has been the hardest hit by the mentioned barriers.

The waning potential of current fields, many of which were already past their prime, has also piqued the interest in implementing the Kashagan project. The state of the existing fields means that oil production in Kazakhstan has hardly grown in recent years. For example, while 81 million tonnes of oil were produced in 2010, only 82 million tonnes were produced in 2013 (although forecasts say that by 2015 oil production should reach 130-135 million tonnes).

By the fall of 2014, it became clear that Kazakhstan's plans to develop this field were undergoing a fiasco; according to the latest estimates, by 2015, oil production should reach 12 million tonnes by 2015 and 15 million tonnes by 2022.

Starting production at Kashagan (it was initially intended for 2005) has been constantly postponed due to the lack of the necessary technology capable of coping with the difficult geological conditions (deep occurrence of oil, high seam pressure, and so on) and the unfriendly climate inherent in the northern part of the Caspian Sea.

The last attempt to begin oil production at this field was made in October 2013, but two days later numerous cracks were found in the pipeline created by exposure to associated gas with a high sulfur content. This required replacement of the 200 km of pipeline via which oil is transported from the artificial island in the Caspian Sea to the coast.

Full replacement of the pipelines at Kashagan will take a long time, while using equipment that is resistant to the corrosive environment will make the project much more expensive, in which large sums have been invested as it is. Whereas investments in its development did not exceed \$10 billion in the beginning, as the preparatory work continues, this amount has been constantly rising (according to the latest estimates, total investments could top \$100 billion). According to preliminary data, removal of the defects could go on until 2016, whereby there is no guarantee that after this stable oil production will begin.

## The Chinese Vector

Creation of the energy corridor from Central Asia to China can be considered a major achievement. In the past few years, it has been transformed into the Great Energy Road project. Thanks to a targeted policy underpinned with large financial resources, China has been able to draw Turkmenistan (it is to provide Beijing with reliable deliveries of natural gas on a long-term basis) and Kazakhstan (the significance of which in the long term could grow) into its orbit of influence.

China's strategic interest in the Central Asian countries is generated by their hydrocarbon resources. It is no accident that during the visit of PRC Chairman Xi Jinping to the Central Asian countries in September 2013, the main topic of discussion was further expansion of energy cooperation, which Beijing is viewing through the prism of its current economic development and long-term interests.

Xi Jinping's visit to the CA countries marked the beginning of a new stage in China's foreign policy in the region. An agreement was reached on building the fourth branch of the Turkmenistan-China gas pipeline with a capacity of 30 bcm (the first three branches were put into operation in 2009, 2010, and 2014), which is supposed to be finished in 2016. According to the estimates, investments



will amount to around \$6.7 billion, while by 2020 the gas delivery volumes should increase to 80 bcm a year.<sup>10</sup>

In the last decade, China has been taking active part in projects to develop the economy of the CA countries, for which it has essentially become a strategic partner. As for the CA countries themselves, cooperation with China is ensuring them a certain amount of socioeconomic stability. In turn, China, by pumping large financial resources into the region, is synchronizing its need for hydrocarbons with its geopolitical strivings.

China is focusing its attention on developing relations with Kazakhstan, particularly in light of its hydrocarbon resources. During the Chinese Chairman's visit in September 2013, the Chinese side reinforced its interest in the agreements amounting to \$30 billion. In keeping with the Declaration on Strategic Partnership signed by the leaders of the two countries, the sides agreed to strengthen cooperation, primarily in the energy sphere. Beijing declared its willingness to continue participating in energy projects particularly aimed at developing new oil and gas fields.

China's increased cooperation with the region's countries is promoted by its geographical proximity and the latter's interest in developing oil and gas fields. Beijing used cheap loans, as well as its willingness to incur additional expenses mainly relating to building infrastructure in the CA countries, as a powerful argument to advance its interests. As a result, Beijing is applying the oil and gas assets acquired in the CA countries in the last decade as a powerful lever of political influence on them.

China is using large-scale projects in the production and transportation of hydrocarbons as a policy tool aimed at realizing its long-term interests. Beijing is counting on establishing control over the promising oil and gas fields located in the region's countries with the aim of engaging in their intensive exploitation in the future. This resource policy pursued by China is depriving the CA countries of development alternatives.

The Great Energy Road project China has been promoting in recent years is aimed at increasing hydrocarbon delivery opportunities and cutting Western states off from the Caspian and Central Asian oil and gas fields. Beijing is orchestrating this scenario in its long-term interests.

## Energy Flow Forecasts

Oil and gas production and export forecasts are one of the main driving forces behind development of the energy sector in the Caspian and Central Asian countries. National fuel and energy development programs and future pipeline projects are built on them.

Although the forecasts of the Caspian countries published since the 1990s have usually proven to be artificially high, they nevertheless are continuing to have a strong influence on the formation of their foreign policy and are dictating the next steps of oil and gas companies.<sup>11</sup>

The pipeline race, in which the Central Asian and Caspian countries are taking extremely active part, has revealed a whole set of problems that interfere with forming new energy flows. The most important are lack of the necessary pipeline infrastructure and hydrocarbon production technology,

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<sup>10</sup> See: N. Iuldasheva, "Sliskom bolno ne budet..." *Delovaia nedelia*, 17 October, 2014.

<sup>11</sup> See: S. Zhiltsov, "The Caspian Region at the Crossroads of Geopolitical Strategies," *Central Asia and the Caucasus*, Vol. 15, Issue 1, 2014, pp. 33-43.

as well as the striving to use investments from oil and gas giants as a counterbalance to Russian policy.

The countries interested in developing Caspian fields (they include both the Caspian countries and extra-regional states) are often guided by the mathematical approach. They determine the deadlines and rates for implementing new pipeline projects based on political contracts and agreements. But this approach is impermissible since due to the different geopolitical strivings of the sides concerned and the difficulties in industrial development of the fields, the forecasts they make must be repeatedly revised.

It should be noted that there have long been attempts to create direct communication between the east and west coasts of the Caspian. For example, in the 1950s a project was drawn up to build a railway tunnel under the bed of the Caspian Sea between Baku and Krasnovodsk (Turkmenistan). There were plans to lay the route of the tunnel in a shallow area with a depth of no more than 150 m on the latitude of the Absheron Peninsula. The 150-km ascents to both coasts were so long that the inclines were insignificant and an electric locomotive could easily negotiate them.

At the time, it was the first tunnel project to cross the sea, but due to technological difficulties and insufficient financial resources, it was not carried out. After the collapse of the Soviet Union, new pipeline projects were designed for the Caspian Sea, the uniqueness of which is giving rise to many difficulties for their developers.<sup>12</sup>

## Conclusion

The new sovereign states of the Caspian Region and Central Asia have solved one of their important tasks—they have been able to draw the resources of foreign oil and gas companies into the energy sector (which is acting as a driving force behind the development of their economies). New pipelines have been built (there are also projects at the discussion stage) with the political support of the West that have secured the countries of the region in the orbit of the interests of the oil and gas business and extra-regional states.

In order to keep the interest in their hydrocarbons going, the countries of the Caspian Region are publicizing artificially high forecasts of oil and gas production. But it is becoming increasingly difficult for them to do this, particularly since the oil and gas companies forking out huge amounts of money have still not seen hydrocarbon production volumes that would allow the Caspian Region to become a second Kuwait.

The formation of energy flows in the Caspian Region and Central Asia might adjust the policy of Iran, which is insistently declaring its plans to increase deliveries of its own gas (10 bcm for now) to Europe. In order to implement these plans, the country intends to accelerate the building of the necessary infrastructure, which will allow Iranian gas to reach European consumers.<sup>13</sup>

The political isolation of Iran, which has long been removed from discussing and implementing pipeline projects, has led to the illogical artificial construction of a pipeline structure in Central Asia and the Caspian Region.<sup>14</sup>

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<sup>12</sup> See: I.S. Zonn, A.G. Kostianoi, A.N. Kosarev, S.S. Zhiltsov, *Kaspiiskoe more. Entsiklopediia*, Vostochnaia kniga, Moscow, 2013, 560 pp.

<sup>13</sup> See: L. Parkhomchik, "Sovremennaia politika Irana v Kaspiiskom regione," *Problemy postsovetovskogo prostranstva*, No. 1, 2014, pp. 37-49.

<sup>14</sup> See: S. Zhiltsov, *Sostoianie i perspektivy politiki stran Tsentralnoi Azii v gazovoi sfere*, Collection of Papers from the Central Asian Gas Forum, 25-26 June, 2014, Almaty, pp. 21-22.

During the more than twenty years of their independence, the Caspian and Central Asian countries have created a pipeline structure that allows them to export their hydrocarbons without going through Russia. Filling new export routes has engendered a significant increase in oil and gas production. These new routes have become the foundation for the further development of the Caspian and Central Asian countries.

In the coming decades, the Caspian and Central Asian countries intend to continue implementing their ambition plans to form new export flows aimed at increasing oil and gas deliveries to the external markets.

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