RUSSIA AND IRAN: ATTEMPTS TO IMPLEMENT NEW STRATEGIC STEPS IN THE CASPIAN-CENTRAL ASIAN OIL AND GAS INDUSTRY

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The events of 2008 on the Caspian Basin and Central Asian natural gas and oil market clearly show that the key regional and world geopolitical players are looking for new ways to take the strategic initiative in the rivalry for access to the production, transportation, and purchase of crude oil and gas. Russia and Iran in particular have made several original proposals and taken specific measures aimed at raising competition in the region's energy sector to an essentially higher level. It is worth taking a closer look at this.

Russia's Price Games on Central Asia's Gas Market

By the end of last year, the situation on the Central Asian natural gas market was developing quite dynamically. This was prompted by the appointment of a new president, G. Berdymukhammedov, in Ashghabad, who immediately demonstrated his desire to draw Turkmenistan out of its foreign policy lethargy. A traditional tool of national policy has been to stimulate contacts with foreign players regarding the laying of major pipelines in every possible direction and the sale of raw gas. In particular, Ashghabad initiated numerous ties with European and American diplomats with respect to the implementation of the pro-Western Trans-Caspian gas pipeline. G. Berdymukhammedov also confirmed the agreement between Beijing and former president Niyazov on the laying of the Turkmenistan-China route.

This of course aroused Moscow's concern since it boded a significant weakening of its dominant position in the transit and purchase of natural gas from Turkmenistan. The Kremlin immediately took a preventive step against the Trans-Caspian route. In May 2007, Russia decided it was time to reconsider the agreement draft on building the Trans-Caspian gas pipeline, which was signed in December of the same year. This route was designed to pump 20 bcm of gas a year and is scheduled to go into operation no later than 2010.

This project was called upon to demonstrate the West Russia's firm resolve to retain its dominant position in the region and its serious intentions to be included in any competition over the Turkmen gas fields on the Caspian shelf.

But Moscow was faced with the more serious problem of raising the price for the purchase of Turkmen natural gas. China initiated the price increase. According to some data, Beijing suggested that it purchase Turkmen gas for 195 dollars per 1 thousand cubic meters, which made the PRC a more attractive buyer than Russia. For Moscow, the appearance of a powerful solvent rival with a vast growth potential on the internal blue fuel consumption market not only threatened the 25-year agreement between Gazprom and Turkmenistan, but also opened up the prospect of a dramatic increase in China's geopolitical influence in Central Asia in the future. So Russia's and Gazprom's main strategic goal in 2008 was to feel out the alternatives for resolving the Central Asian price dilemma.

The first step in this direction was taken on 11 March, when a four-way meeting was held in Moscow attended by Gazprom's Chairman A. Miller, KazMunaiGaz's President U. Karabalin, Uzbekneftegaz's Chairman N. Akhmedov, and Turkmengaz's Chairman Ya. Kakaev.

According to Gazprom's press service, during the meeting the heads of Kazakhstan's, Uzbekistan's, and Turkmenistan's gas companies stated that "based on the interests of the national economies and taking into account international obligations to provide reliable and continuous supplies of energy resources, beginning in 2009 natural gas will be sold at European prices."[1]

Gazprom's consent to discuss this issue came as a surprise to most analysts, keeping in mind that for many years the Russian concern had been buying Central Asian gas at prices much lower than the world level and tried to adhere to this policy. Nevertheless, all the steps taken by Gazprom in recent years to gradually raise purchase prices made it clear that the Russian company was beginning to take a sober look at the situation on the Central Asian energy market, where the other players were not only expressing their intention to become purchasers of raw gas, but were also beginning to carry out large projects.

An additional argument in favor of Gazprom's reconsideration of the new price policy in Central Asia was the favorable situation that has developed on the European blue fuel market. In this respect, the phrase heard at the above-mentioned meeting in Moscow on the sale of Central Asian gas at European prices is interesting, since this could lead to a noticeable change in the competition situation on the region's energy market. At the time of the meeting, Gazprom's average price for European consumers was 360 dollars per 1 thousand cubic meters, but as early as June 2008, it had noticeably exceeded this index.

As Gazprom's head Alexei Miller stated at the 11th Annual General Meeting of the European Business Congress, "just recently at an EBC meeting in Paris we predicted that the price of gas in Europe would be 400 dollars per 1 thousand cubic meters by the end of 2008. But even Gazprom, which has the most detailed information about gas markets, underestimated the potential of the rise in price. Already today the average price of our deliveries to Europe has reached 410 dollars."[2]

Based on this, it can be presumed that the purchase price for Central Asian gas could range in the future between 200 and 300 dollars per 1 thousand cubic meters not counting the cost of transit through

[1] On the results of the working meeting between Alexei Miller and the heads of Kazakhstan's, Uzbekistan's, and Turkmenistan's gas companies, see: [www.gazprom.ru], 11 March, 2008.

[2] Alexei Miller's statement at a press briefing for the 11th Annual General Meeting of the European Business Congress, available at [www.gazprom.ru], 10 June, 2008.

Russia. For example, last December an agreement was reached between Gazprom and Ashghabad to the effect that blue fuel purchased by Gazprom from Turkmenistan will cost up to 130 dollars per 1 thousand cubic meters in the first half of 2008, and up to 150 dollars in the second.

What strategic dividends could Russia gain from the price-raising game? It is unlikely that Moscow can stop China from penetrating Turkmenistan's gas market, since the Turkmenistan-China pipeline project is already underway. But Gazprom could obtain certain advantages in another area. The matter primarily concerns the deliveries of Russian gas from Siberia to the PRC. The project for the Altai route is aimed at this, on which a Protocol on Natural Gas Deliveries to China was signed between Gazprom and the CNPC during Vladimir Putin's official visit to China on 21-22 March, 2006.

At the first stage, the gas pipeline will aim to deliver 30 bcm of gas a year from Western Siberia. This is due to the proximity of the West Siberian fields to the existing gas infrastructure, which will make it possible to begin deliveries sooner (by 2011). They will be made to the Xinjiang-Uighur Autonomous Region of the PRC, where Russian gas will flow into China's West-East pipeline, via which raw gas is pumped to Shanghai. The total length of the Altai gas pipeline is 2,800 km and its cost tops 10 billion dollars.

At present, its implementation is mainly hindered by the difficulties in the talks between China and Russia on defining the purchase price for Russian gas. Gazprom is offering the price formation model used in Europe, which at high prices for oil and petroleum products guarantees the high cost of gas. The PRC, in turn, is against this and suggests tying the price of blue fuel to the cost of cheap Chinese coal, or to a fixed price of 100-120 dollars on the Russian-Chinese border. The argument is often used that Beijing can find cheap gas in Central Asia by way of an alternative.

So by feeling out the possibilities for provoking a price-raising game in Central Europe, Gazprom could create an expensive gas situation in the region, the cost of this gas being at the same level as the price for West Siberian blue fuel. The stakes may also be placed on the fact that Central Asia's possibilities for selling its own natural gas and meeting the needs of importers from the CIS, Europe, and Asia are nevertheless limited, and logically, sooner or later, Beijing will be forced to turn to expensive Russian gas.

Russia's steps are also putting psychological pressure on other players, the EU and the U.S. If the price of Central Asian gas is within the range of 200-300 dollars, the Europeans and Americans will encounter an essentially different and unfavorable situation on the Central Asian market. In the past, the West appealed to the fact that Russia was buying Central Asian gas at an artificially low price, which made it possible to argue in favor of building the Trans-Caspian gas pipeline. But the very fact that Russia and the Central Asian countries have been discussing an increase in gas prices raises a rather difficult question for the EU and U.S.: "What price are they prepared to offer for switching the gas flows from Central Asia to the West?"

It will be rather difficult for the Western players to find an adequate answer, particularly due to the risks involved because of the indefinite amount of Turkmenistan's supplies and in light of the competition from Russia and China, which already have functioning gas pipelines or set agreements on the laying of new pipelines.

When looking at the question of raising the price of gas from Central Asia, it should be noted that the influence of this factor will not only have an effect on the geopolitical breakdown in forces in the region, but will also affect several other areas of geopolitical rivalry, particularly with Ukraine.

At present, Kiev is buying Central Asian raw gas from Gazprom at 179.5 dollars per 1 thousand cubic meters, and Russian for 314.6 dollars per 1 thousand cubic meters. The ups and down of the Ukrainian-Russian dispute, when Kiev waged a tough battle at the talks with Moscow for every dollar, are still fresh in everyone's mind. The future development of the Ukrainian economy and the competitiveness of its product were directly tied to this. In the event of a sharp rise in the cost of gas from Central Asia, rather dismal prospects will open before the Ukrainian economic and pro-Western Orange authorities. This could theoretically change the development of the geopolitical situation in Ukraine.

Moscow has already set its price for Kiev. As Russian Foreign Minister Sergey Lavrov said on 6 June, 2008, beginning on 1 January of next year, the price of Central Asian gas going to Ukraine through Russia will correspond to European prices and be calculated according to standard formulas. This means that Ukraine will have to pay almost double the price. A rather simple calculation shows that the matter essentially concerns a price of more than 350 dollars per 1 thousand cubic meters.

Azerbaijan as a New Field of Competition

The fact that Russia regards the question of raising gas prices to the European level as a very real mechanism in its new "aggressive" energy strategy is shown by the attempts to use it on the South Caucasian energy market and particularly in relation to Azerbaijan.

The statement by Gazprom's head Alexei Miller, which he made during a meeting with Azerbaijani President Ilham Aliev in Baku at the beginning of June 2008, is significant in this respect. In his words, "Azerbaijan, as a major producer of hydrocarbons in the CIS, is Russia's objective partner, we have common interests. We already share a developed gas-transportation infrastructure. We are interested in developing mutually advantageous cooperation between Gazprom and Azerbaijan in the energy sphere."[3] In so doing, he stressed in particular that Gazprom was willing to buy natural gas at market prices.

The first information about the possibility of establishing cooperation in the gas sphere between Azerbaijan and Russia began to appear as early as July 2007. At that time, Russian mass media, referring to an anonymous source in the State Oil Company of Azerbaijan Republic (SOCAR), reported that the latter was willing to sell Gazprom the surplus blue fuel that had appeared after the Shakh Deniz field went into operation. A price of 230 dollars per 1 thousand cubic meters was named, but the amount of gas to be delivered was not specified.[4]

At the same time, it is not sufficiently clear from this statement what gas the Azeri side is willing to supply, reserves from Shakh Deniz or from other fields. It is very likely that it could be Shakh Deniz gas, keeping in mind that the SOCAR has a 10-percent share in the international consortium that is developing this field.

Gazprom's proposal to purchase Azeri gas at market prices is very significant for several reasons. First, it seems that the Russian company recognizes Azerbaijan's promising nature on the regional blue fuel market, particularly since this country itself was an importer of Russian natural gas until 2007. The key role in Azerbaijan's stronger position on the gas market is due to the fact that such powerful gas structure as the Shakh Deniz field with reserves of more than 1.2 tcm of gas and 240 million tons of gas condensate was put into operation and construction of the Baku-Tbilisi-Erzurum main pipeline was completed. This year Baku is planning to produce at least 11 bcm of blue fuel.

According to the forecasts of the SOCAR, the country will produce 23 bcm of gas by 2015 with a domestic demand of 12-13 billion. In so doing, the SOCAR is counting on increasing the

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[3] Gazprom says it will buy Azeri gas at market prices on the basis of a long-term contract, 3 June, 2008, available at [www.day.az].

[4] Gazprom is offered surplus Azeri gas, 7 July, 2007, available at [www.oilru.com].

proved gas reserves if appraisal well drilling confirms that the Umid, Zafar-Mashal, Absheron, and Nakhchevan fields have reserves of 1.4 tcm. At least 2.7 billion dollars will be invested in appraisal drilling.[5]

Second, the proposal Baku received from Gazprom might indicate Moscow's attempts to reassess its former policy regarding Azerbaijan and test the ground for launching an aggressive energy policy directly in the Southern Caucasus. It is quite obvious that by sounding out the situation regarding gas cooperation, Moscow is trying to implement new mechanisms of economic and, consequently, geopolitical cooperation with Baku.

The thing is that today Russia's position in Azerbaijan is rather weak. At one time Moscow was skeptical about the prospects for developing the Azeri-Chirag-Gunashli fields and building the Baku-Tbilisi-Ceyhan oil pipeline. This gave the West a splendid geopolitical opportunity to gain a foothold on the western coast of the Caspian and establish confidential relations with official Baku.

The decision to deliver Russian gas to Azerbaijan at market prices, 235 dollars per 1 thousand cubic meters (the previous price was 110 dollars), weakened Russia's position even more. This prompted Ilham Aliev to decide to halt purchases of Russian gas, increase Azerbaijan's own production, and cut back deliveries of Azeri oil along the Russian route via the Baku-Novorossiisk pipeline. The last decision was prompted by the fact that Baku needed to supply the domestic market with additional volumes of oil in order to prevent an energy crisis.

So Russia lost a large portion of its economic partnership resource with Azerbaijan, and the efforts to establish gas cooperation with Baku look like an attempt to restore at least some of the ground it has lost in this respect.

At the same time, possible cooperation with Azerbaijan could also be a strategic step with a far-reaching aim with respect to the aggravated energy rivalry in Eurasia. Here particular attention is drawn by Russia's offer to purchase Azeri gas at market prices.

As Deputy Assistant Secretary of State for European and Eurasian Affairs Matthew Bryza believes, this offer by Gazprom shows that the company does not have enough resources to fulfill its contract obligations on deliveries to Europe.[6] It should be acknowledged that there is a certain grain of truth in this presumption, but at the same time, the gist of the matter in this case is most likely more complicated.

By offering cooperation based on market principles, Moscow can theoretically move toward a whole series of goals. First of all, if Gazprom can contract at least half of the 10-11 bcm of gas that will be exported by Azerbaijan in 2015, it will become one of Baku's key energy and, consequently, geopolitical partners. And this in turn will have a direct effect on undermining the currently strong position of Western capital in the energy sector of this Caspian country.

In the event that Moscow and Baku succeed in reaching a principal agreement on the delivery of Azerbaijani blue fuel, Gazprom can count on gaining access to the reserves of the Shakh Deniz field through its partner relations with the Norwegian StatoilHydro Company. The Norwegians own 25.5% of the shares in the project, exactly the same amount as the main operator (British Petroleum). Moreover, StatoilHydro is the project operator for commercial plans.

Gazprom and StatoilHydro have close relations since they are partners in developing Stockman, the giant gas field on the Russian shelf of the Barents Sea. The shares of the sides in this project are distributed as follows: Gazprom—51%, France's Total—25%, and StatoilHydro—24%. It is a well-

[5] See: Kh. Iusifzade: "In 2015, annual gas production will amount to 23 bcm a year," 4 June, 2008, available at [www.day.az].

[6] Matthew Bryza said that evidently Gazprom does not have enough gas to fulfill its obligations to Europe, 04.06.2008, available at [www.day.az].

known fact that the Russian and Norwegian companies regularly hold business meetings at which the question of Gazprom's possible purchase of gas from Shakh Deniz is also discussed.

As for Azerbaijan's interests and its future steps, it is difficult to make any forecasts. It is possible that, for political considerations, Baku might still accept the offer to create a second Russian export route, since it will help to reduce the Azeri elite's extreme dependence on the West. The statement by Minister of Industry and Energy Natik Aliev might be a hint at this possibility. He said that "Azerbaijan is free to decide to whom to sell its gas and at how much. … Russia has already expressed its willingness to purchase our gas. This question will be studied."[7]

Nevertheless, the differences in the views of the sides on the Nagorno-Karabakh problem could become a restraining factor in the development of Russian-Azerbaijani gas cooperation.

By offering Baku a market price, Gazprom is already essentially supporting the most recent steps by the SOCAR to raise the price for Azerbaijani gas sent westward to Georgia, Turkey, and Europe. This is particularly important for Baku, keeping in mind its desire to be free from Ankara's dictates in transit and set price issues. According to the agreement signed on 12 March, 2001 between the SOCAR and Turkey's Botaç, the latter assumed the obligation to purchase 89.2 bcm of natural gas at 70-120 dollars per 1 thousand cubic meters for 15 years (2004-2018).

The statements of several officials on possibly halting the second development stage of the Shakh-Deniz field indicate Baku's resolve to reconsider the rules of the game, which will adversely affect the plans to deliver gas in the direction of Turkey. As ASOC Vice President Elshad Nasirov said in April 2008, "we will give our consent to sanction Stage-2 as soon as we are sure we will obtain the highest profit from gas sales under the project. Our partners at Shakh Deniz basically agree with us, saying that we should not sell gas just for the sake of selling it. That is, there should be sufficient gas volumes for making deliveries to Turkey and a reliable, transparent, and long-term transit tariff for delivering gas to Europe."[8]

The Russian price proposal might also provide Azerbaijan with support in the European vector. Baku has recently been trying to participate in such European projects as the Trans-Adriatic gas pipeline and the Poseidon pipeline, in which the main participants are Italy, Greece, and Turkey. Russia's proposal is particularly valuable in light of Azerbaijan's attempts to play a subtle diplomatic game aimed at bargaining advantageous conditions for itself in this issue.

If we look at Russia's price proposal to Baku through the prism of geopolitics and rivalry with the EU and U.S., we can see that the same logical course is being followed here as in the case of Central Asia. By pushing for a rise in price for Azerbaijani gas and advancing this expensive gas onto some segments of the European market, Gazprom could deprive the supporters of the Western Nebuchadnezzar route project of a source of cheap gas as an alternative to Russian gas, which is becoming increasingly expensive.

The price of blue fuel is quite a serious argument in the gas rivalry that is unfolding if we keep in mind that Europe is striving in its gas policy in the Caucasus and Central Asia not only to diversify its gas import routes, but also to obtain cheaper gas. The EU needs cheap gas for the simple reason that at equal prices Europe is less economically competitive than the PRC and other Asian countries.

The price component just happens to be one of the weak points in the EU's energy policy in the Caspian-Central Asian region, and so the Russian Federation has recently been looking at the possibility of supporting exporter states from these areas in their efforts to raise the price of the gas they

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[7] N. Aliev: "Azerbaijan svoboden v priniatii rezheniia, komu i za skol'ko prodavat' svoi gaz", 4 June, 2008, available at [http://www.apsny.ge/news/1212642191.php].

[8] F. Asim, "Azerbaijan vse aktivnei vnedriaetsia na gruzinskiy rynok. GNKAR ne speshit s dobychei prirodnogo gaza na Shakh-Denize," available at [www.zerkalo.az], 26 April, 2008.

export. It can count on the fact that high prices for this raw material will lower the West's interest in carrying out expensive projects bypassing Russia and will strengthen the position of those within the EU who are in favor of cooperating with Moscow with respect to blue fuel transit.

Iran's Oil Pipeline Ambitions in the Caspian

Iran, which is immersed in geopolitical competition with the U.S. in the Middle East and dealing with the problem of protecting its own nuclear program, has long failed to take any breakthrough steps in expanding its partnership ties with energy exporters from the Caspian Region. But in April 2008, Iran ended its silence. At the Second Oil Commercial-Transportation Conference held in Baku in April 2008, Amin Eskenderi, a high-ranking official in the Iranian Petroleum Ministry, announced Tehran's plans to increase its participation in the transit of Caspian oil to the world markets.[9]

The crux of the above-mentioned projects lies in expanding the technical possibilities of oil terminals at the Caspian's Neka port, as well as in laying the Neka-Jask Trans-Iranian pipeline, via which oil will be delivered from the Caspian Sea to the coast of the Gulf of Oman.

In order to strengthen its competitive advantages in the struggle for Caspian oil transit, Iran wants first to eliminate the weak spots in its port infrastructure in the Caspian. The thing is that Iran's competitive potential has been lowered by the rather weak technical parameters of Neka port, which can only receive tankers with a deadweight of no more than 5-7,000 tons. According to the plans of the Petroleum Ministry, dredging work will soon be carried out at the port, which will make it possible to receive tankers with a deadweight of between 14,000 and 63,000 tons. The oil-storage capacities at Neka port will also be increased from the current 1.5 million to 2.5 million barrels. It is anticipated that by 2015 the port will be able to handle up to 25 million tons of oil a year.

In turn, the Neka-Jask pipeline will be able to pump 1 million barrels a day. The oil pipeline will consist of several sections of 300-500 km each with a total length of 1,500 km. The first section will be Neka-Semnan; the second, Semnan-Yezd; the third, Yezd-Kerman; and the fourth, Kerman-Jask.

Tehran's set of measures to attract Caspian black gold also include refining it at Iran's enterprises. The proposed volume is 350,000 barrels a day. Caspian oil will be sent for refining to the Tabriz oil refinery (80,000 barrels/day), the Isfakhan oil refinery (150,000 barrels/day), and the Tehran oil refinery (120,000 barrels/day). It is expected that the the Shakhriar oil refinery (150,000 barrels/day) and the Kaspiiskiy oil refinery (300,000 barrels/day) that are planned to be built will be oriented toward the crude oil from the Caspian.

Several facts point to Iran's serious intentions to carry out such a grandiose series of projects. For example, Tehran has already announced specific tariffs for pumping oil through its territory via the Neka-Jask pipeline. The tariff should be 45 dollars per ton, which is the lowest among all the projects operating in the Caspian Region. For example, the price for pumping oil via the Baku-Tbilisi-Ceyhan pipeline amounts to 75 dollars per ton, via the CTC to 55 dollars, and via the Baku-Batumi/Kulevi railroad to 73 dollars.

In addition to this, Iranian experts have begun studying the technical parameters for building the mentioned route. According to Iranian Deputy Oil Minister Mohammed Reza Naamat-zade, the project

[9] See: "Iran gotov stat tranziterom dlia eksporta kaspiiskoi nefti na mirovoi rynok," available at [www.iran.ru], 25 April, 2008.

is currently at the engineering development stage. After it is complete, a tender will be held to choose a contractor for beginning work on building the pipeline.[10]

According to some data, Iranian diplomats and businessmen are already sounding out the possibility of Kazakhstan and Azerbaijan joining the project as suppliers of raw material.

Based on commercial profit considerations, the Iranian Neka-Jask project appears very promising for Caspian oil exporters. At present, the lion's share of black gold from Azerbaijan, Kazakhstan, and Russia is going in the northerly and westerly directions, primarily to the European Union market, and there, as we know, a high level of competition is registered today among the numerous suppliers from Africa, the CIS, and Middle East. Only Kazakhstan has been able to partially shed this dependence after putting the Atasu-Alashankou oil pipeline into operation, but even it has access to only one market, the Chinese.

In order to raise delivery flexibility, access to the ports of the World Ocean is required, as well as transportation of oil by tankers. The Neka-Jask pipeline will provide this opportunity. Oil can be delivered from the coast of the Gulf of Oman to the dynamically growing markets of South and Southeast Asia, as well as of the Far East, which are experiencing a greater need for energy and striving to diversify their sources of oil import in order to reduce their extreme independence on Middle Eastern suppliers. Export from the coast of the Gulf of Oman is also advantageous in that it makes it possible to bypass the overly used Strait of Hormuz, the world's main oil route.

In addition to the above-mentioned countries, this project is also advantageous for Russia from the geopolitical and commercial viewpoints. Sending the growing volumes of oil produced in Kazakhstan and Azerbaijan south, toward Asia via Iran, is helping to weaken the position of the projects supported by the West, such as the Baku-Tbilisi-Ceyhan and Odessa-Brody pipelines. This will also make it possible for Moscow to lighten the pressure on the Russian oil companies on the European market from Kazakh and Azeri suppliers. It is presumed that this competitive pressure will grow when the Kashagan field in Kazakhstan goes into operation and production continues to increase at the Azeri-Chirag-Gunashli structures in Azerbaijan.

As for the non-regional players, the Neka-Jask oil pipeline will most likely meet the interests of India, a growing world economic power and leading Asian consumer of black gold. The promising nature of this project for Delhi is obvious from two perspectives. First, the oil pipeline will make it possible for India to finally gain access to high-quality Caspian oil and diversify import sources. Second, it will give a boost to the activity of Indian companies in the oil-producing regions of the Caspian Basin.

The Iranian oil-transportation project and India's involvement in it could promote a change in much of the current architecture of economic and political cooperation in Central Asia, the Caspian Sea, and South Asia. First of all, this will have an impact on the development dynamics of the SCO, an interstate structure.

The thing is that India, which is an observer in this organization, does not take much practical participation in its problems and development plans since it does not have many interests in common with the member states. Delhi does have some common interests with the SCO member states in ensuring regional security, but in the economy, the second key development vector of this structure, the situation leaves much to be desired.

In this respect, the Neka-Jask pipeline could create a reliable launching pad for expanding economic ties between oil exporters from the SCO, such as Russia and Kazakhstan, and India. It is possible that the appearance of a new energy corridor could stimulate the implementation of other transportation projects such as the North-South corridor.

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[10] See" "V stroitelstve nefteprovoda Neka-Djask primet uchastie Kazakhstan," available at [www.rusenergy.com], 17 June, 2008.

There can be no doubt that the difficult relations between Iran and the U.S. will be the main problem in implementing this project. Washington is always against any large foreign investments in the Iranian economy and recently its position has only become tougher due to the crisis around Iran's nuclear program. This, in turn, will make it difficult to involve partners in financing projects, as well as to obtain guarantees with respect to the export of Caspian oil via the Neka-Jask oil pipeline.

Conclusion

The course of the big energy game in Central Asia and the Caspian during 2008 shows that neither Russia nor Iran intend to give up their strategies aimed at strengthening partnership ties with regional energy suppliers. A noteworthy aspect of their recent actions is the dynamic search for new and more efficient models of cooperation capable of creating real competition to Western projects in oil and natural gas deliveries from the Caspian-Central Asian Region.

As an analysis of the Russian and Iranian proposals shows, 2008 is a time for sounding out suppliers from the Caspian Basin and Central Asia for both players in terms of bringing their views into harmony on several key issues in price formation and cooperation in implementing joint oil and gas projects. Most likely we will see the active implementation of several of the most successful innovations next year.

At the same time, it should be noted that the success of Russia's and Iran's new projects will directly depend not only on the actions of their competitors, but also largely on the position of the Caspian and Central Asian suppliers themselves. The latter, against the background of the growing prices for raw hydrocarbons and mounting concern in the world over providing the global economy with oil and gas, are gaining a better understanding of the importance of their resources and so are trying to obtain as much economic and geopolitical advantage from this as possible. Keeping this in mind, they will make their patronage of projects being advanced by foreign partners depend directly on the preferences and future economic and political dividends offered.