CENTRAL ASIA AND THE CASPIAN: A NEW STAGE IN THE GREAT ENERGY GAME

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The events that took place early in September 2006 can be described as the starting point of a new round of the Great Game for control over the Central Asian and Caspian gas resources. The near monopoly domination of Russia and Gazprom in this part of the world is becoming a thing of the past. China, which signed contracts on the delivery of over 100 bcm of gas with Russia and the Central Asian countries, has moved to the fore, thus tipping the balance of forces. The fact that the huge contractual amounts have not yet been confirmed either by available resources or by adequate transportation facilities testifies that the countries involved are working toward new and more acceptable rules on the market that is just taking shape.

The rivalry over the energy sources of Central Asia and the Caspian is rooted in the 19th century when Britain and Russia were locked in the so-called Great Game over the region. Early in the 20th century, the Caspian supplied the world with half the oil it consumed; this was where the huge wealth of the Nobels and Rockefellers originated. When the Soviet Union left the stage, Western companies pushed in with the intention to control the natural resources of the newly independent Central Asian and Caspian states. In Asia, too, the giants—China, India, Japan, and the Republic of Korea—stepped up their involvement in the process. Russia, which lost some of its influence in the 1990s, has been building up its presence in the last few years. Analysts and political observers have already tagged the rivalry over energy resources and pipelines as "a new round of the Great Game of the 19th century."

Today, America, Russia, China, Japan, and India are interested in the region for several reasons: its favorable geographic location and its potential as a West-East and North-South communication corridor; the world's growing demand for energy fuels, in which the region is rich, as well as the counter-terrorist struggle.

In the final analysis, however, the present active involvement of the world's largest countries in Central Asia and the Caspian, which manifests itself in different forms (diplomatic, military, economic, etc.), is explained by nothing more than the key political reality: the exacerbating rivalry over raw materials, particularly energy fuels.

The oil crisis taught the oil importers that they need an uninterrupted flow of oil from the oil wells to the consumer; they also learned that oil should come from different sources in sufficient quantities to exclude the possibility of "energy blackmail."

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The Caspian is a very promising source of gas and oil, much richer than the North Sea. The largest lake has at least 4 percent of the world's hydrocarbon resources under its bed.

Table 1

Oil and Gas Resources of the Caspian Region as Assessed by the U.S. Energy Information Administration

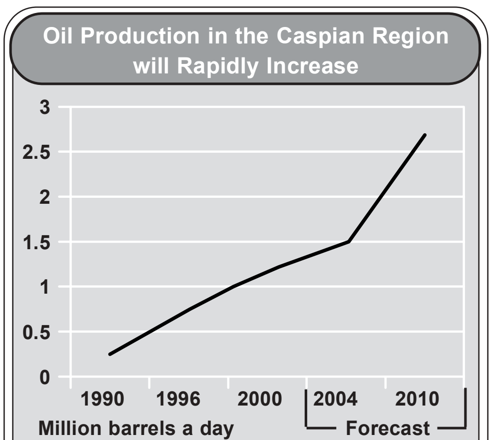
Units	Oil			Gas			Oil + Gas		
	Proven resources	Potential resources	Total	Proven resources	Potential resources	Total	Proven resources	Potential resources	Total
AZERBAIJAN									
Billion barrels	3.6-11.0	27	31-38						
Trillion cubic feet				11	35	46			
Billion tons of conventional fuel	0.7-2.2	5.4	6.1-7.6	0.4	1.3	1.7	1.1-2.6	6.7	7.8-9.3
IRAN*									
Billion barrels	0	12	12						
Trillion cubic feet				0	11	11			
Billion tons of conventional fuel	0	2.4	2.4	0	0.4	0.4	0	2.8	2.8
KAZAKHSTAN									
Billion barrels	10.0-16.0	85	95-101						
Trillion cubic feet				53-83	88	141-171			
Billion tons of conventional fuel	2.0-3.2	17	19.0-20.2	2.0-3.1	3.3	5.3-6.4	4.0-6.3	20.3	24.3-26.6
RUSSIA*									
Billion barrels	0.2	5	5						
Trillion cubic feet				—	—	—			
Billion tons of conventional fuel	0.04	1.0	1.0	—	—	—	—	—	—
TURKMENISTAN									
Billion barrels	1.4-1.5	32	34						
Trillion cubic feet				98-155	159	257-314			
Billion tons of conventional fuel	0.3-0.3	6.4	6.7	3.7-5.8	5.9	9.6-11.7	4.0-6.1	12.3	16.3-18.4
TOTAL FOR ALL CASPIAN COUNTRIES									
Billion barrels	15.2-28.7	16.1	176.2-189.7						
Trillion cubic feet				—	—	—	—	—	—
Billion tons of conventional fuel	3.0-5.7	32.2	35.2-37.9	—	—	—	—	—	—
TOTAL FOR ALL CASPIAN COUNTRIES (APART FROM RUSSIA)									
Billion barrels	15.0-28.5	156	171-184.5	162-249	293	455-542	177-278	449	626-727
Trillion cubic feet									
Billion tons of conventional fuel	3.0-5.7	31.2	34.2-36.9	6.1-9.3	10.9	17.0-20.2	9.1-15.0	42.1	51.2-57.1

* Only the Caspian Coast.

From the viewpoint of reserves, the Caspian shelf is the most promising, and the most risky, investment object. American experts assess the recoverable reserves at 2.4-4.6 billion tons; potential reserves are several times higher. While agreeing with the Americans on the whole, analysts believe that the figures might be overstated to a certain extent.

Finding themselves unexpectedly independent and deprived of their share of the huge Soviet market, the regional countries had to find development resources at home. They turned to their natural riches, however only extensive oil and gas production could promptly bring real money to the state coffers. Azerbaijan, Kazakhstan, and Turkmenistan had to rely on the oil and gas Caspian fields for survival. According to statistics, oil production in Central Asia and the Caspian was developing by leaps and bounds. Its dynamics are very illustrative (Diagram).[1]

Diagram



Source: Aton Company.

Russia produced 643 bcm of gas in 1991 and 634 bcm in 2004; Kazakhstan produced 8 and 20 bcm; and Uzbekistan, 42 and 60 bcm, respectively.

[1] See: *Ekspert,* No. 41 (441), 1 November, 2004.

Russia produced 462m tons of oil in 1991 and 459m tons in 2004; while Kazakhstan produced 27 and 59m tons, respectively (in 2006-2007 production reached 80m tons). In 1991-2004, Azerbaijan increased its annual oil production from 8 to 16m tons.

The region is steadily developing into one of the world's major oil exporters. Even though there is no clarity about the actual amounts of Caspian shelf oil and gas reserves, it is local and foreign oil companies actively putting the already known fields into production that is giving the Caspian countries (including Uzbekistan) the chance to join the world's largest oil exporters in the next ten years. A small part of the oil produced is used locally, and the rest is imported. Up to 70 percent of Azerbaijan's export revenues consist of petrodollars (export of oil and oil products); oil comprises 50 percent of Kazakhstan's exports.[2]

Assessments of the Caspian region's export potential differ: according to the Russian Fuel and Energy Ministry, it is not much higher than 70-80m tons of oil a year; the Caspian countries have their own ideas. By 2010, Azerbaijan and Kazakhstan plan to export 100m tons of oil every year; and Turkmenistan, 50m tons. Some experts forecast that in the next ten years the Caspian states will export up to 100-150m tons (2-3m barrels a day), an increase of 4- to 6-fold over the current figures.[3] Experts of the U.S. Department of Energy are even more optimistic: they expect that by 2015 the Caspian will export 200-230m tons of oil. Today the world produces about 3 billion tons every year, which means that in the next few decades the Caspian will account for 7 percent of world production. Western analysts believe that this will make the West less dependent on the Gulf countries.[4]

[2] See: *Tsentral'no-aziatskie novosti,* 25 September, 2002; *Neft i kapital,* 17 November, 2004.

[3] [http://www.context-ua.com], 15 July, 2002.

[4] See: A. Butaev, *Kaspiy: zachem on Zapadu,* Chapter 4, available at [www.caspiy.net].

Zone of America's Strategic Interests

America and Europe do not merely want to rule out "oil blackmailing" by creating new sources of energy fuels. In the West, the Cold War syndromes are forcing many strategists to insist on Russia's isolation and the greatest possible contraction of its sphere of international influence. "Caspian oil is the best instrument to be used to bring Central Asia and the Transcaucasus to the world markets geo-economically, *to detach them from Russia and to eliminate, for all times, the possibility of post-Soviet imperial reintegration*."[5]

The aim is not so much "to detach" as to establish control over the region. The American press is quite open about it. In an article entitled "The Next Oil Frontier," Business Weekly wrote: "American soldiers, oilmen, and diplomats are rapidly getting to know this remote corner of the world, the old underbelly of the Soviet Union and a region that's been almost untouched by Western armies since the time of Alexander the Great. The game the Americans are playing has some of the highest stakes going. What they are attempting is nothing less than the biggest carve-out of a new U.S. sphere of influence since the U.S. became engaged in the Mideast 50 years ago."[6]

It was there that the oil "majors" and their money came into play: they paved the way for American officials. Nearly all the largest oil companies (Chevron Texaco, Exxon Mobil, BP, and Halliburton) have been investing heavily: in the last five years, American investments in Central Asia and the Caspian have grown from "trifles" to $30 billion (the bulk of the money went to oil-rich Kazakhstan). Suffice it to say that the U.S. created the special post of U.S. State Department Special Representative, Caspian Basin Energy Diplomacy with an ambassadorial rank to speak officially in the name of the United States.

Real policy-making is going on in the upper echelons of power. Back in 1998, Vice President Dick Cheney, then one of the central figures in investing American billions, said that he could not think of another region that had become as strategically important overnight as the Caspian.[7]

In *The Grand Chessboard*, Brzezinski did not rule out the possibility of a clash for world domination between America and China; in this hypothetical case the U.S. might use Central Asia as a Western toehold for bringing about China's collapse (taking into account the proximity of Xinjiang).

This explains the opposition to the Kazakhstan-China oil pipeline; Washington is becoming increasingly concerned over the possibility of the larger part of Caspian oil being sold in Asia (China and India), which are building up energy consumption and developing into America's serious rivals. There is the opinion in Kazakhstan that America, which does not want an alternative to the Baku-Tbilisi-Ceyhan pipeline, is behind the protracted talks on the Chinese project. Russia is accused of the same, without much justification however. The idea of an Extended Great Silk Road, a transportation corridor from Xinjiang to Punjab via Kashmir to be used for liquid energy fuels, is another stumbling block.[8]

Europe Adjusts to the Changes

The EU policies in the region have been taking shape in the new post-Soviet geopolitical situation. In fact the EU members are pursuing the same aims as all other big states (the U.S. Russia, and China), yet some of its aims are very specific. The Europeans want to control the energy resources of Central Asia and, to an even greater extent, the Transcaucasus; at the same time, they are more in-

[5] *Ekspert,* No. 41 (441), 1 November, 2004.

[6] *Business Weekly,* 15 May, 2002, available at [http://www.businessweek.com/magazine/content/02_21/b3784008.htm?chan=search].

[7] See: Supplement No. 43 (2412) to *Kommersant* (14 March, 2002).

[8] See: *Ekspert-Kazakhstan,* 5 February, 2004.

volved (even compared with the United States) in the struggle against the mounting threats: intensified drug trafficking, illegal migration, social tension, encroachments on democracy, and radical militant Islam.

Despite the common strategic line, much lauded in the West, America and Europe are pursuing their own aims. Two EU leaders—Germany and France—have already concluded that the EU should increase its geopolitical weight in Eurasia—an intention best illustrated by confrontation over Iraq in 2002 and 2003.

We cannot exclude the fact that the mentioned demarche, like Europe's subsequent active involvement in this part of the world, was a response to America's strategic gains in the region. The American operation in Afghanistan and the U.S. military bases in Central Asia in 2001-2002 deprived the EU of the geopolitical initiative it began acquiring at the turn of the 2000s. Recently, the European policies in Central Asia, the Caspian, and the Caucasus have been criticized. According to the two biggest authorities in this sphere—Alexander Rar of the German Foreign Policy Council and N. MacFarlane of Oxford University—the European Union has missed the boat with respect to Central Asia. While the Europeans were taking orders from the Americans, trying not to offend Russia, and respecting its lawful interests in the region, the European Union was squeezed out of the Great Game.[9] European analysts are calling on European politicians to start paying more attention to Central Asia in the spirit of the EU's new strategy "Turn to Central Asia" German Chancellor Gerhard Schroeder announced in December 2001.

Russia is the EU's special problem when it comes to building European strategy in Central Asia and Kazakhstan. As distinct from Washington, Brussels is fully aware of Moscow's lawful rights in the region. It is prepared to recognize Russia's special role there, particularly in the security sphere, as well as in trade and economic relations and energy. Europe cannot but take into account the fact that Russia delivers one-fifth of the gas and one-sixth of the oil consumed by the EU members.

The EU was very critical of America's active involvement in promoting the BTC pipeline, mainly because the oil delivered to Ceyhan (Turkey) would never reach Europe: experimental deliveries confirmed that the Mexican Gulf and Ceyhan oil terminals could serve ocean-going tankers, which meant that the Caspian oil would go to the United States.

European oil companies are among the largest players in the Caspian oil and gas projects. Early in the 1990s, the EU leaders formulated the TRACECA and INOGATE projects to create conditions for moving energy resources from the Southern Caucasus to Europe. The European Economic Commission drafted the SPECA (Special Program for the Economies of Central Asian) to till the soil for transporting energy fuels.

Today, when the United States has established its control over Iraqi oil, it is less interested in Caspian oil, no matter what American top officials are saying. At the same time, Western Europe is becoming more interested in it as an alternative to Arabian and North Sea oil. The question is: will the Old World be able to carry out large-scale energy projects on its own?

According to Kazakhstani experts, the European Union lacks the necessary geopolitical influence—a fact testified by the recent developments around Iraq and, partly, in the Caspian. Europe will not be able to protect its energy interests and resolve the problem of oil production in the Caspian and oil transportation to Europe without America.[10] The same applies to Europe's economic potential: EU enlargement has caused low economic growth and many problems that will make it difficult for Europe to invest enough money in the projects.

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[9] See: *Kontinent* (Kazakhstan), No. 11 (129), 9-22 June, 2004.
[10] See: *Gazeta Kz,* 3 June, 2003.

The United States, meanwhile, has formulated the idea of an East-West energy corridor that will stretch from the Caspian across the Southern Caucasus and Turkey to Europe. It will probably help resolve some of the problems arising during implementation of the TRACECA and INOGATE projects. Recently analysts pointed out that the EU has lost interest in the projects. EU officials, on their part, announced that it was for Russia and the EU to discuss oil and gas transit from the Caspian. The Americans obviously did not like the idea: the American press is obviously concerned about Russia becoming the main transit country; there is the opinion that America and certain Eurasian states should be invited to join the dialog.

The gas conflict between Russia and Ukraine, during which Ukraine stole gas intended for Europe, forced the Europeans to readjust their ideas about Central Asia and the transit routes. The problem has been aggravated by the general situation on the gas market.

According to the heads of E.ON Ruhrgas, in the next two years Western Europe will have problems with gas deliveries. "Gas will become a deficit," say the Ruhrgas spokesmen. The situation will improve when two large-scale infrastructure projects (involving Russia and Norway) are completed: the North European gas pipeline and another gas pipeline from Norway to Great Britain, as well as the commissioning of objects using liquefied natural gas.

Still, according to expert assessments of the long-term perspective, the situation with gas deliveries to Europe will remain tense. After 2015, EU members (the Netherlands, the U.K., Denmark, and Germany) will extract much less gas. while demands will continue to grow at a fast pace.

In fear that the project might fail, European energy concerns are extending their long-term contracts with Gazprom: annual gas consumption in Europe is rising. The U.K. alone, Europe's largest gas consumer (94 bcm in 2005), doubled its household consumption, the inflated prices failing to check the rise. Last winter, 1,000 c m of gas cost $1,200 on the wholesale market, while Gazprom continued selling gas under its long-term contracts for $250-270 on the continent.

Gas production in Europe is steadily declining; Norway, which is increasing production by 10 percent every year, cannot fill the gap formed by the drop in gas production in the British sector of the North Sea and the Netherlands. In 2005, the two countries produced 14 bcm of gas less than in 2004; since 2000, Great Britain has lost 20 percent of gas production on its territory; this is not the bottom—the U.K. will ultimately find itself among the energy-deficit countries.

At the same time, Europe, fully aware that Gazprom deliveries depend on Turkmen, Uzbek, and Kazakhstani sources, is trying to create alternative delivery routes for Central Asian gas.

The "threat of gas blackmail" by Russia campaign revived the talks about a "trans-Caspian gas pipeline" laid along the bed of the Caspian to bring gas to Europe bypassing Russia. In May 2006, Vice President Dick Cheney, a former oil magnate, visited Kazakhstan. On the eve of his arrival, he delivered a speech in which he accused Russia of manipulating energy resources. He insisted that President Nazarbaev promise to export gas through the trans-Caspian pipeline when (and if) it was commissioned. Soon after that the Kazakhstani president visited Vladimir Putin at his summer residence on the Black Sea coast where the two presidents reached an agreement to cooperate in oil production on three shelf fields and in the military sphere. The two heads of state signed a long-term contract under which Gazprom continued handling gas produced in Kazakhstan.

Early in September 2006, Polish Premier Jarosław Kaczyński announced that on 12-16 September he planned to visit Washington to discuss a trans-Caspian gas pipeline from Central Asia to the EU bypassing Russia. According to the *Rzeczpospolita* newspaper, the Polish authorities were prepared to provide long-term lease of land for an American missile base (an element of the U.S. anti-missile defenses) in exchange of $5 billion for the gas pipeline project. Ukraine might follow suit.

On 8 September, President Iushchenko announced that he had discussed a new concept of the transit of Caspian gas to Western Europe (bypassing Russia) with President of Azerbaijan Aliev. "Gas deliveries from the Caspian area via the Caucasus and Ukraine to West European countries is an interesting project. We have reached certain agreements, will set up an initiative group, and will create corresponding political categories and initiatives related to the project," said the Ukrainian president.[11]

In May 2006, President Putin agreed on the Kazakhstani price of $140 per 1,000 c m (the old price being $65) in exchange for dropping the idea of gas pipelines bypassing Russia. The issue is still being actively discussed in Kazakhstan at the cabinet level, but Turkmenistan is the only country able to supply the necessary amounts. Gazprom will obviously have to pay for "freezing" the project by buying Turkmenian gas for $100 per 1,000 c m. After signing the historic contract, President Niyazov hastened to announce: "We shall sell gas primarily to Russia. You should not believe that Turkmenistan plans to move elsewhere with its gas. We are not prepared to discuss the trans-Caspian pipeline."

A fully-fledged European strategy in Central Asia and the Caspian will be formulated later; it will probably address geopolitical issues using economic methods, which means that the EU will try to somewhat restrain the geopolitical passions fanned by the United States. On the other hand, the Europeans will probably revise their Russian policies by making it much harder to defend their own interests in Central Asia and the Caucasus. The EU will try to step up its political influence there to draw local resources to the world market. This time, America, not always pleased with Europe's involvement in strategically key regions outside the Old World, will support Europe: it, too, needs diversified energy sources. Russia so far has managed to defend its interests at the WTO talks, within the Energy Dialog and in the sphere of oil and gas production and transportation. It seems that the accelerating state "dirigisme" in the Russian fuel-and-energy complex, no matter how negative, will at least fortify Russia's position in the energy sphere abroad. Europe will have to adjust itself to Russia's plans and interests (when they finally become absolutely clear).

China: "Trip to the West"

China's interests in the Caspian are clear and absolutely predictable. Lack of raw materials (energy resources in particular) might check its splendid economic advance as the last Congress of the Communist Party of China warned. According to the leading world experts, by 2010 China will import up to 120m tons of oil every year, twice as much as in 2002. By that time, the Central Asian countries plan to extend their oil production on the Caspian, while the Gulf zone, the main source of China's oil exports, will become even less stable.

The conclusion was a pragmatic one: reliance on oil imports and direct involvement in oil production abroad. There is information that China elaborated two strategies: southern (Southeast Asia) and northern raw material zones (Russia, the Caspian, and Central Asia). Confronted with rigid opposition from the United States and other developed countries, Beijing looked at other corners of the globe; today Chinese oilmen are active in Western Africa. In the past few years, Chinese oil companies have become actively involved in foreign projects: the China National Petroleum Corp. (CNPC), the key oil player, has been working in Venezuela, Sudan, Iraq, Iran, Peru, Azerbaijan, Kazakhstan, Uzbekistan, and Turkmenistan. According to Western sources, the corporation has invested up to $40 billion all over the world.[12]

[11] See: "Ukraina pustit gaz v obkhod Rossii," *Kommersant,* 9 September, 2006.
[12] See: *The Financial Times,* 17 November, 2004.

Chinese companies are especially active in two adjacent regions—Central Asia and the Caspian. Irrespective of the form of ownership, Chinese companies always coordinate their moves with national state agencies, therefore their contracts always correspond to Beijing's policies in any given region.

China's obvious desire to diminish its dependence on Mideastern oil deliveries is explained not only by the region's obvious instability, but also by the threat that Taiwan and the United States will close the Strait of Malacca for oil transit. Beijing is working hard on encouraging its oil-rich neighbors to lay pipelines in its direction.

Given the above, the oil pipeline from Kazakhstan to Western China is of vital importance; it will become even more important if Azerbaijan and Turkmenistan join it. China is prepared to build a huge oil refinery in Urumqi (Xinjiang) to process Kazakhstani oil before moving it to the industrialized eastern coast.

China has stepped up its involvement in the gas sphere, too; in fact, its efforts to find a niche for itself in Turkmenistan, Kazakhstan, and Uzbekistan are undermining Gazprom's monopoly on export gas pipelines leading to Europe.

It looks as if the Central Asian countries are trying to set up a large-scale export project for the East that will leave Russia in the cold. As distinct from Azerbaijan, which placed its stakes on the Western market (Asia Minor and Europe), the gas-rich countries of the Caspian's eastern coast plan to export their fuel to China.

Early in April 2006 Ashghabad, and Beijing signed an agreement on annual deliveries of 30 bcm of gas for the next 30 years, starting in 2009. They will use a new pipeline. The deal was predated by a revived project of a gas pipeline between Kazakhstan and China of the same capacity, as well as the Chinese projects in Uzbekistan. The centerpiece of these activities is an agreement between Moscow and Beijing on annual deliveries of no less than 60 bcm of Russian gas to China. Part of the amount will compete with Caspian exports—a sure sign of another round of the Great Energy Game.

Under the agreement with Turkmenistan, China will buy gas at the border and build the pipeline itself; the arrangement is identical to that between Kazakhstan and China, which will pay for the gas pipeline between Makat and Alashankou.

China plans to be involved in gas production in Turkmenistan: a production sharing agreement for the right bank of the Amu Darya will be signed in 2006.

China has similar plans in Uzbekistan: in May 2005, the CNPC set up a JV with the Uzbekneftegaz to work on the Ustiurt Plateau, in September it joined the Aral Zone consortium working in a gas-rich area with over 2 tcm of gas.

Marian Abisheva, deputy director of the Kazakhstan Institute of Strategic Research under the President of Kazakhstan, said in April 2006 that her country and China were working on three alternatives of gas delivery to China: first, extension of the already functioning pipeline Bukhara-Tashkent-Almaty to Taldy-Kurgan and further on to Alashankou on the Chinese border; second, a new gas pipeline from Ishim in Russia to Astana and further on through Karaganda to Lake Balkhash and the Chinese border (Alashankou). This alternative was obviously intended for Russian and Kazakhstani gas; third, a new main gas pipeline from Chelkar via Kzyl-Orda to Shymkent, where it will be linked to the Bukhara-Tashkent-Almaty pipeline.

Gas from Uzbekistan, Turkmenistan, and Kazakhstan will be moved by the recently built West-East pipeline between Xinjiang and Shanghai. The Chinese have opted for funding both the production and transportation infrastructures in Central Asia, thus diminishing the local governments' risks in mastering new markets. In other words, China intends to re-channel the Central Asian fuel flows from the west to the east and to deprive Russia of its influence in the Central Asian gas sphere.

Being active in several directions, China is obviously tightening its grip on the region; its recent economic achievements provided it with economic and financial tools to support its political claims. Russia's position, on the other hand, is ambiguous, to a certain extent: Beijing, Moscow's strategic partner, has turned into an obvious and extremely successful rival in the zone of Russia's direct geopolitical and economic interests. It was from the position of a strong regional (in this case) power that the suggestion of creating a free trade area within the SCO was made. This is confirmed by the support extended by Astana and Tashkent. The Russian Federation, which for many years has been talking about multipolar international relations, is facing a choice: either to abandon its claims to domination in the CIS or to work harder in this direction. It seems that Moscow opted for the latter.

India is Moving onto the Scene

According to the leading world agencies, oil consumption in India will outstrip its GDP growth by 1-2 percent; while its demand for natural gas will grow even faster, by 3-4 percent. This means that in 2006 the state will import 70 percent of the oil it consumes; in the next 15 years, the share will grow to 85 percent, while during the same period gas demand will increase from 100 bcm to 400 bcm (the country's own annual production being about 33 bcm).

India's oil reserves are low, while oil production is limited. Today, 80 percent of imported oil reaches India by sea from the Middle East and the Indian offshore platforms. According to local analysts, India's fast population growth and dynamic economy will force it to spend over $20 billion on oil imports in 2010 since it has practically exhausted its local fuel resources.

The country, which came late to the worldwide "division of the resources," opted for the Chinese alternative: the two countries are competing all over the world to acquire rights to oil and gas production and import. According to the local press, the largest Indian company, Oil and Natural Gas Corporation, is increasing its presence in the Soviet successor states (primarily Russia), Sudan, Angola, Vietnam, Burma, West Africa, and elsewhere at a fast pace. Since 2000, the company has already invested $3.5 billion in prospecting and extracting fossil fuels abroad; its extensive activities testify that India is working hard to achieve energy security.

The fast growing national economy has pushed the country into the Caspian fray. A consortium of the country's major oil players—the Indian National Oil and Gas Corporation, the Indian Oil Company, and the GAIL Company—intend to buy 20 percent of the shares in one of the region's marine projects (Kurmangazy/Kulalinskaia). Kazakhstani geologists assessed its forecasted reserves at 1 billion tons; the site saddles the Russia-Kazakhstan border and, under an intergovernmental agreement, should be developed jointly in equal shares. The two countries are represented by public companies, KazMunaiGaz (Kazakhstan) and Rosneft (Russia), with two smaller partners, Zarubezhneft of Russia and Total of France, which has not yet registered its rights.[13]

India has certain interests in the Caspian transport fuel-related sphere: the North-South corridor, which connects the ports of Mumbai (India), Bandar Abbas-Bandar Amirabad (Iran), Anzali (Iran), the Caspian Sea, port Olia (Astrakhan, Russia), and St. Petersburg, is an alternative to the already functioning routes. So far there are no plans for pipeline projects, but Russia, India, and Iran as well as other Caspian players (Kazakhstan and Turkmenistan) intend to invest in it.

[13] See: *RusEnergy,* 5 November, 2004.

Delhi is showing a lot of interest in the plans to export Kazakhstani oil along the Kazakhstan-Iran-Persian Gulf main pipeline: local experts are convinced that the volume of oil exports from Kazakhstan will increase and transportation costs will decrease, which will allow India to meet its domestic requirements. In February 2005, Indian Petroleum and Natural Gas Minister Mani Shankar Ayar discussed with Kazakhstan the possibility of his country's involvement in developing oil and gas fields in Kazakhstan. The Oil Ministry is convinced that Iran, as the sides' strategic partner, will not object to the planned main pipeline.

India, a newcomer to the highly competitive Caspian resources scene, has every reason to expect that its interests will be taken into account: its advance into the group of the world's economic leaders was very impressive. Its relations with Russia have a long and positive history, which suggests that the two countries might form a bloc to compete with other rivals for a "place in the Central Asian sun." Russia will naturally have to take Indian interests into account in the spirit of the multipolar world conception.

Japan's Interests in the Caspian

Recently Tokyo has started paying more attention to Caspian oil partly because of the persisting high fuel prices that made it highly profitable to extract hydrocarbons and attracted more investments (from Japan as well as from other countries) into production and transportation. In 2003, it became clear that Japan was recovering from a prolonged economic recession, which revived the urgency of gaining access to new sources of strategic resources as a condition of sustainable economic growth. According to the U.S. Energy Information Administration, by 2020 Japan will consume 320m tons of oil compared to 280m in 2001 and will import 100 percent of the required amount.[14]

The Japanese import 55 percent of hydrocarbons (85 percent of oil) from the five largest Mideastern oil suppliers (UAE, Saudi Arabia, Iran, Qatar, and Kuwait), therefore the region's instability is their headache too. Japan has already selected Russia and the Caspian countries as substitutes.

Japanese money is actively involved in western resource development projects: Japanese TNCs are present in four out of 15 production sharing agreements in Azerbaijan; since 1993, they have also been involved in the coastal fields of Kazakhstan as part of the Offshore Kazakhstan International Operation Company (OKIOC) engaged, on a production sharing basis, in exploration drilling in Kashagan and Kerogly (with estimated total reserves of 38 billion and recoverable reserves of 9 billion barrels). The Japanese are also participating in reconstructing an oil refinery in Atyrau.

Japan's position in the Caspian is not politically tinged on the whole; it is not part of the "allied patterns" with the West. The Japanese are actively supporting (financially, among other things) the West's position. Caspian oil does not reach Japan, they engage in swap transactions—the distance between the production and consumption sites is too great. This explains Japan's pragmatic approach to the Caspian: protection of the interests of its companies involved in oil production in this corner of the world. The Japanese, engaged in a complicated game over the East Siberian resources spearheaded in the final analysis against China, do not want to irritate Russia. For this reason Japan cannot be described as the U.S.'s and EU's unreserved ally in the intrigues on the "Caspian chessboard."

[14] See: V. Iakubovskiy, "Perspektivy stanovlenia mnogostoronnego energeticheskogo sotrudnichestva v Severo-Vostochnoy Azii: rol Rossii," Publikatsii Tsentra Karnegi, available at [http://www.carnegie.ru/ru/print/70488-print.htm], 11 September, 2006.

Russia: A Painful Turn from Monopoly to Integration

The post-Soviet geopolitical and investment vacuum in Central Asia and the Caspian was quickly filled with Europeans, Americans, Chinese, and other nations moving ahead through the concerted efforts of the government and business. This means that Russia's position is becoming more costly and more complicated. The Russian media have developed a fondness for reproaching the authorities and business for their passivity. Here is a typical statement: "Because of the ambitions of the Caspian states and companies and its own passivity, Russia has almost missed its chance of moving to the leading position in the region's oil sphere."[15] The concern is natural, but hardly justified. An analysis of Russia's recent moves shows that the government and companies have increased their regional involvement, which suggests an analogy with China. Objective factors were all-important: an excellent foreign economic situation enlarged the country's budget possibilities and added to the Russian oilmen's ambitions. It seems that geopolitics too are developing according to the golden rule: "Everything in due time."

In the 1990s, Russia could hardly prevent the division of the Caspian states' oilfields among foreign concessions. LUKoil's presence in Azerbaijan, Kazakhstan, and Uzbekistan was the best that could be accomplished. The company that controls a vast segment of the Caspian offshore geological assets created a corporate shelf of sorts that stretched to the segments of several countries. In fact, together with the five Caspian states, the company, which has recoverable fuel reserves much larger than those of Iran, can count as the sixth actor. According to LUKoil analysts, the total amount of recoverable reserves in the Russian segment of the Caspian basin is 4.5 billion tons of oil equivalent (32.9 billion barrels). In April 2004, the company alone controlled 2.75 billion tons of oil equivalent (20.1 billion barrels).[16]

Russia managed to preserve the most important part of the Soviet inheritance: a system of main gas pipelines still used to move the larger part of the region's hydrocarbons to the world markets, even though there are several new, more or less finished (or potentially finished) transportation projects.

In future we can expect that Russia's presence in the local oil sector will increase and that the rivals will not be quick to commission new routes. Russia will have to pay to maintain its pipelines in working condition—otherwise it risks losing its "pipeline monopoly." At the same time, bearing in mind Russia's fondness for "identifying priorities," I suggest that energy expansion in Central Asian and the Caspian should be treated as one.

Gas is one of the most promising subjects in Russia's dialog with the region's states. When its cooperation with the newly established counter-terrorist alliance was several months old, President Putin made public his new approach to the rapidly increasing American military presence on Russia's southwestern borders. Russia needed a Central Asian alliance of its own. By saying this the president did not mean a defensive association—he had in mind the huge local reserves of natural gas. Having called on the energy-fuel rich Kazakhstan, Uzbekistan, and Turkmenistan to agree to Russia's control over the volumes and directions of gas exports from Central Asia, President Putin indicated that the gas issue had become a priority at the highest state level.

In 2003, Gazprom acquired control over all the main gas pipelines in Uzbekistan; in April 2006, it signed a production sharing agreement with Uzbekistan for the next 15 years on developing the

[15] *Ekspert,* No. 41 (441), 1 November, 2004.
[16] See: *RusEnergy,* 8 June, 2004.

Shakhpakhty gas condensate field with 7.7 bcm of residual gas reserves. Gazprom announced its intention to buy 44 percent of the country's gas monopoly Uzbekistantransgaz, as well as a large part of Kazakhstan's gas pipeline system.

During the Russian president's visit to Tashkent in June 2004, LUKoil signed a production sharing agreement for the Kandym-Khauzak-Shady project (with actual geological reserves of 283 bcm) for the next 35 years. Kandym, the largest of the three fields, contains an estimated amount of over 150 bcm. The company has already announced that it was prepared to sell the extracted gas to Gazprom for further delivery to the Russian or world markets.

Other Russian companies are also active in the region: in July 2004, the Energy Intelligence Agency informed that Soyuzneftegaz, headed by former energy minister Iury Shafranik, had bought a controlling block of shares of the Uzpek company (licenses to two Uzbek gas fields twice as rich as the fields developed by Gazprom and LUKoil being its main assets).

Uzpek owns licenses for exploring and developing two blocks in the country's northwest—Southwestern Gissar and Central Ustiurt. The former is the first license agreement under which the government of Uzbekistan signed a production sharing agreement; it consists of two blocks—Adamtash with 5.5m tons of oil and Kyzylbarak with 6.5m tons of oil and 134 bcm of gas. The latter consists of two fields—Urga and Berdakh. Together they are believed to contain 400 bcm of gas; Uzpek plans to sell gas to Russia, Kazakhstan, and China.[17]

It is in the gas sphere that Russia's current monopoly position as the only export outlet for the Central Asian gas producers is being tested.

On 5 August, 2006, Gazprom and the government of Turkmenistan signed an agreement under which the Russian company would pay $100 per 1,000 c m in 2007-2009. The matter concern the purchase of 12 bcm of gas in 2006 and 50 bcm of gas in 2007-2009. This means that during this period it will pay $6 billion more than expected—the cost of remaining in control of Central Asian exports to Europe until 2010.

The new price invited numerous comments: Gazprom, which flatly refused to pay the price asked and demonstratively withdrew from the talks a couple of months earlier, suddenly agreed to $100 per 1,000 c m. It seems that some radical change had taken place on the world gas market. Several factors are responsible for the main actors' market behavior.

The new prices Turkmenistan and Russia agreed upon are the first sign of radical changes in the gas sphere in the former Soviet republics. So far Gazprom has been demonstrating a lot of flexibility in the favorable worldwide situation; in the future, however, rivalry will intensify and the cost of control will become even higher. While moving onto the foreign markets, the monopoly should keep an eye on domestic production, in which the situation is far from favorable. In January-July 2006, gas production increased by 2.5 percent compared with the first half of 2005; its export increased by 24.9 percent. Today, Gazprom is fighting on two fronts to preserve and extend its markets (Europe or China attacked by the Caspian gas producers) and to defend its position in Central Asia to be able to retain the level of its own export. The situation on the gas market is rapidly changing, which requires flexible and adequate responses from all the actors.

It is becoming increasingly obvious that the chances of sticking to the strategy of monopolization of export routes with the aim of bringing Caspian oil and gas to the European market are slim. It looks as if this has been finally recognized at the very top: the Russian leaders are testing a new, so-called integration approach to the Caspian issue that presupposes as diverse and as much involvement by the Russian companies as possible in the Caspian shelf development. This will probably bring more economic advantages in the form of taxes, jobs, service contracts, etc. than Russia's potential oil transit incomes.

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[17] See: *Vremia novostey,* 14 July, 2004.

Due to the war in Iraq, the Caspian acquired even more geopolitical weight. Today, to promote its interests in the region, Russia should pursue a strategy of large-scale investment in Azerbaijan, Kazakhstan, and Uzbekistan with the intention of establishing the Russian companies' control (or management) over as large an amount of local resources as possible. This can be done; what is more, this strategy meets the interests of Russia and other Caspian states. Delay would allow the Americans, Chinese, and Europeans to capture the market. This is what we are seeing—today the Russian companies have to pay high "entrance fees."

The Western media are full of concern over Russia's intention to create an alliance of gas exporters. The meeting of the presidents of Russia, Kazakhstan, Turkmenistan, and Uzbekistan in Astana early in March 2002 was the first step toward an organization that would unite gas exporters. Other important players on the gas market (Iran, Algeria, Libya, Qatar, Iraq, Bahrain, and Brunei) supported the Russian initiative. Today, they account for over 16 percent of the world's crude gas exports and for nearly 40 percent of liquefied gas.

The press refers to experts when it writes that the forum of natural gas exporters founded in 2001 may soon develop into a gas OPEC of sorts with Russia as its inevitable and natural head. The process that is gaining momentum will allow Russia (which has already acquired a firm and prominent position on the world oil market) to become the central figure on the world energy scene and to impose its conditions on Europe and the United States.

To become head of the world gas market, it has to be created. So far the Gas Exporter Countries Forum (GECF) is a far cry from a "gas OPEC," but in July 2004 at the Cairo meeting, Gazprom's deputy chairman frightened analysts by saying: "I think it is in the interests of our countries to sell gas at as high a price as possible, therefore we should stick to the right approaches and concerted policies."[18] More than that: Gazprom's head admitted that his company would coordinate all aspects of gas-related policies (prices among other things) with Kazakhstan. Having learned this, experts became even more convinced that a gas OPEC was being formed and that Gazprom would use the gas resources of its neighbors to fulfill its export obligations and make Russia a gas integrator in the post-Soviet expanse.

Stanford and Houston universities prepared a report that predicted the gas prices on the future integrated market would depend on Russia. The authors analyzed several possible scenarios.[19]

The gas consumers were even more concerned about two events that took place in 2006 and that might usher in a gas concern as an official structure. First, on 10 March, 2006, President Putin visited Algeria and obtained additional preferences in the form of the Russian companies' monopoly right to oil production in the Sahara. With its 1.5 billion tons, Algeria comes third in Africa after Libya and Nigeria. The details of cooperation in the energy sphere will be discussed later. Second, in mid-August 2006, Gazprom and Sonatrak, the Algerian national oil and gas company, signed a memorandum on mutual understanding that partly presupposes a joint coordinating commission in the energy sphere and permanent workgroups. Gas swap transactions will be the first result of this newly established cooperation; Algeria might use Russian gas to continue supplying Italy, while Gazprom will obtain liquefied gas from Algeria. Whereby it cannot be excluded that Gazprom will increase its deliveries. This was interpreted, particularly in Europe, as the first step toward a system of cartel price forming that involves two of the largest gas suppliers (Algeria supplies about 10 to 12 percent of Europe's gas consumption, while Russia is responsible for over a quarter of it).

Tehran's gas-related initiative offered by the president of Iran on 15 June, 2006 in Shanghai was of exceptional geo-economic importance: when talking to the Russian president he suggested that the two countries should together form the gas prices.

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[18] *Izvestia,* 13 July, 2004.

[19] Ibidem.

Observers have already pointed out that by drawing closer in the gas sphere the two countries would create conditions for an influential international organization of gas producers, something that brings OPEC to mind. If the two countries link their gas pipeline systems, Gazprom will contribute to managing practically the entire Asian gas pipeline system; this is all the more real since Turkmenistan plans to join the system (the already functioning Turkmenistan-Iran gas main pipeline will link Central Asia to the system to create a gas market for Turkmenistan, Iran, Pakistan, India, and China).

The Iranian initiative means that Iran, the second most important gas-rich country after Russia, is not planning to engage in stiff competition with Moscow in the gas sphere. It has invited the Russian Federation to act together on the world's gas market, up to and including coordinated price and transportation policies. An alliance between the two countries means that they would gain control over 43 percent (75.7 tcm) of the world's proved gas reserves and would control the Eurasian and the world markets for a long time to come.

So far there are no plans for setting up a cartel—the Russian president confirmed this in Shanghai. Today, such intentions might have undermined Russia's image, which hosted the G8 forum and claimed the role of guarantor of worldwide energy security. However, there are bilateral agreements between Russia and actual and potential gas suppliers—Algeria, Libya, and Iran. These agreements might develop into effective regulators of the pipeline gas market in the interests of gas producers.

Recently, Iran, Algeria, and Libya, to say nothing of post-Soviet states, have already invited Moscow to coordinate prices and trade policies. So far the Russian president has been sticking to his Shanghai line and distanced himself from the idea. Continued and mounting resistance to the gas producers' efforts to set up a fairer and more responsible, from their point of view, system of international gas trade will inevitably increase Russia's interest in the cartel project.

A large regional gas alliance can be formed if Russia, Kazakhstan, Turkmenistan, and Uzbekistan, countries with huge gas reserves and dynamically developing production and transportation, pool their efforts and political wills. The idea is very attractive in the presence of potentially bottomless markets (India, Pakistan, China, etc.). Algeria, by moving the alliance to the super-regional level, will consolidate the negotiating positions. Russia's G8 chairmanship has left no doubts about which country will lead the still informal interstate structure. President Putin's Algerian visit, as well as its oil-and-gas results will be discussed in the context of a future gas OPEC under Russia's obvious influence.

The Common Energy EurAsEC Market

Cooperation in the energy sphere across the post-Soviet expanse is gradually developing; integration deepened together with the countries' closer economic cooperation. The EurAsEC members have never allowed this side of their cooperation to escape their attention.

They form one of the world's largest energy markets, while their aggregate fuel-and-energy potential consists of considerable hydrocarbon reserves, energy-production capacities, and a fairly large hydroelectric potential (especially in Kyrgyzstan and Tajikistan). The EurAsEC members have concentrated on developing the region's powerful fuel and energy potential; the five countries are objectively interested in it due to the inherited interconnection between their fuel and energy complexes. This structure can arrive at a single energy system; in fact the Energy Policy Council in the EurAsEC made up of the five members' energy ministers is working in this direction. Today, the relevant legal documents are being drafted on mutual transit of energy resources (including strategically pivotal oil, gas, and energy) across the EurAsEC neighbors.

The relations between Kazakhstan and Russia in this sphere may serve the graphic example of integration in the energy sphere. In recent years, the two countries have made good progress in cooperation between their fuel and energy complexes. In 2001, they restored parallel functioning of the two systems, a year later, the two countries signed an agreement on long-term transit of up to 17.5 m tons of Kazakhstani oil across Russia every year; there is a newly established joint-stock company KazRosGaz operating in the gas sphere.

The two countries have also agreed on joint exploitation of three shelf fields (Kurmangazy, Khvalynskoe, and Tsentral'noe). The already accumulated experience leads to common approaches to an agreed energy policy within the EurAsEC (which also uses cartel principles) to acquire common outlets to the foreign markets. The gas alliance issue, which would include some of the Asian countries, has been placed on the agenda.

In mid-April 2003, Almaty hosted the third meeting of the EurAsEC Energy Policy Council attended by experts from Russia, Belarus, Kazakhstan, Tajikistan, and Kyrgyzstan, which looked into the possibility of a common energy market. This idea has long been discussed within the structure. Speaking at the recent EurAsEC Economic Forum Chairman of RAO UES, Anatoli Chubays suggested that an interstate group should be set up to start working on the mechanisms of the single energy market within the EurAsEC. He went as far as saying that a common economic expanse between Asia and Europe was "a very real prospect" that would operate according to unified technological standards. This initiative was supported within the CIS, EurAsEC, and at the talks with EU.

A united energy market may provide an important integration stimulus: the task is technically feasible. Analysts are convinced that the states concerned should create a common approach to the problem, which will require time and political will.