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Competition between Western and Northern Oil and Gas Transport Routes to Europe

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ABSTRACT

Since ancient times, the Caspian region has been known for its energy resources, which attracted the attention of the leading world players. The struggle for control over hydrocarbon resources intensified after the collapse of the U.S.S.R.

The new independent states—Azerbaijan, Kazakhstan, and Turkmenistan were rich in energy resources, but economically weak, and became a target for Russia and the Western countries, which used their oil and gas companies to seek control over the hydrocarbon reserves of the new states and influence the oil and gas sectors of the economies of Azerbaijan, Kazakhstan and Turkmenistan.

The second stage of the competition was the struggle for control over oil and gas export routes from the Caspian region to world markets. The fact is that initially the newly independent states had no other way to transport hydrocarbons, except to the north—through Russian territory. These pipelines were inherited from the Soviet Union; there were simply no others available at the beginning of the 1990s. Having thus become heavily dependent on Moscow, the new Caspian region states began to work on creating alternative routes, one of which was the western route—from Azerbaijan through Georgia to Turkey and then to Europe. In 1998-2018, two oil pipelines and one gas

pipeline were built in the western direction, which were subsequently expanded and modernized in order to increase capacity.

As a result, a feud broke out between the two main routes for delivering Caspian oil and gas to Europe and to world markets: the northern and western routes. The northern route is being lobbied by Russia, the western—by the U.S., EU, and Turkey. Accordingly, depending on geopolitical preferences and the degree of dependence on one or another world locus of power, supporters of the northern and western routes were identified among the new countries of the Caspian.

Thus, Azerbaijan has clearly come to support the western route, Kazakhstan—the northern one, and Turkmenistan has not yet made its decision, preferring to export gas along the northern route, and oil—along the western one.

This article compares the strengths and weaknesses of both routes and the influence of geopolitics on the choices made by Baku, Nur-Sultan, and Ashghabad for exporting their hydrocarbons to Europe.

KEYWORDS: ***Azerbaijan, Kazakhstan, Turkmenistan, Russia, the U.S., EU, oil, gas.***

Introduction

The Caspian region is an old and well-known source of oil and gas. Initially, oil production was concentrated in Azerbaijan, where it began about 200 years ago (in the 1840s). Subsequently, in Soviet times, oil and gas fields in Kazakhstan and Turkmenistan began to be developed. But this process was proceeding at a slow pace, as it required a large investment. At that time, the Soviet Union leadership focused on the oil and gas fields of Siberia, leaving the Caspian region as a strategic reserve for the future. But an entirely different situation emerged after the collapse of the U.S.S.R., as the new independent states—Azerbaijan, Kazakhstan and Turkmenistan—became the owners of what were once the Soviet strategic oil and gas reserves.[1]

From the very beginning, the new Caspian region states have faced a number of problems. First of all, the absence of the Caspian Sea's legal status, which Russia and Iran took advantage of, posing all sorts of obstacles to the development of offshore fields by Azerbaijan and Kazakhstan, where the main oil and gas reserves of these countries were located. Accordingly, Baku and Astana (since March 2019—Nur-Sultan) advocated dividing the sea into national sectors, where each of the countries could conduct mining operations. Moscow and Tehran adhered to the exact opposite point of view. They considered it unacceptable to develop offshore oil and gas deposits by any one state without the consent of other states, since in the absence of an agreement on the status of the Caspian and the marine borders, they continued to consider the Caspian to be a common sea, and proposed to use its resources similarly to property use in a condominium.

Nevertheless, Azerbaijan was the first of the Caspian states to unilaterally begin to develop the oil fields in its own sector of the Caspian, engaging Western companies. In 1994, the "Contract of the Century" was signed in regard to the development of the Azeri-Chirag-Gunashli fields, and Russia was unable to prevent this, despite harsh statements and appeals to the U.N. about the illegality of unilateral actions in regard to the Caspian.[2]

[1] See: S. Kolchin, "Oil and Gas as Seen from Russia," *Central Asia and the Caucasus*, No. 2 (8), 2001.

[2] See: S.A. Pritchin, "Rossiia na Kaspii. Poiski optimalnoi strategii," Aspekt Press, Moscow, 2018, pp. 60-61.

Subsequently, Russia began to alter its own Caspian policy, when Kazakhstan took up the development of oil and gas deposits in its shelf area, following Azerbaijan's example. In this matter, Moscow, not wanting to completely lose its leverage over the partition of the Caspian and its resources, was forced to agree with the position held by Astana in dividing the Caspian floor into national sectors, when the surface remained in common use.[3] Subsequently, this principle formed the basis of the Convention on the Legal Status of the Caspian, signed in 2018.

The second problem was the lack of a developed system of oil and gas pipelines for the export of hydrocarbons to world markets in Azerbaijan, Kazakhstan, and Turkmenistan. The oil and gas transportation system that existed at the beginning of the 1990s was inherited by these countries from the Soviet Union and was tied to Russia, which allowed Moscow to exert pressure on Baku, Astana, and Ashghabad.[4] The routes of pipelines that traverse Russian territory can conditionally be called "northern."

The then-current state of affairs could not suit either the leadership of Azerbaijan, Kazakhstan, and Turkmenistan, or foreign investors (mainly Western), who were risking big money when investing in oil and gas production in these countries. Therefore, there emerged a need to develop new routes for oil and gas pipelines, which would bypass Russia.[5] Under U.S. pressure, these routes went in the direction of Georgia and Turkey, that is, towards the West, and thus began to be conditionally called "western."

Today, there are three "northern" oil pipelines and one gas pipeline in the Caspian region, as well as two "western" oil pipelines and one gas pipeline.

Northern Routes

Among the northern pipeline routes, *the Baku-Novorossiysk oil pipeline*, which has been operating since 1983, should be heeded special attention. Initially, it was intended to deliver Russian oil to Azerbaijan's oil refineries. The length of the pipeline is 1,535 km, of which 1,300 km passed through Russia, while the remaining 235 km went through Azerbaijan.[6] This pipeline's annual capacity is 18 million tons of oil.

The pipeline's most important advantage was its indispensability in the mid-1990s for the transportation of early Azerbaijani oil to world markets. However, this pipeline was in no way suitable for transporting the bulk of oil for several reasons:

— Instability of the situation in the Northern Caucasus, where military operations were conducted in Chechnia in 1994-1996. But even after the war, throughout the 1990s, the situation remained unstable, and terrorist attacks took place periodically;[7]

— Light Azerbaijani oil (Azeri Light brand) in this pipeline was mixed with heavier and more viscous Russian oil (Urals brand) and was eventually sold on world markets at a lower price;

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[3] See: S. Zhiltsov, "Resources of the Northern Caspian and Russian Policy," *Central Asia and the Caucasus*, No. 6 (24), 2003.

[4] See: V. Ginsburg, M. Troschke, "Sharing the Resources of the Caspian Sea: Participants, Interests, and Problems," *Central Asia and the Caucasus*, No. 5 (23), 2003.

[5] See: I. Tomberg, "Energy Policy in the Countries of Central Asia and the Caucasus," *Central Asia and the Caucasus*, No. 4 (22), 2003.

[6] See: S.S. Zhiltsov, I.S. Zonn, "Kaspiiskiy region. Politika, ekonomika, sotrudnichestvo," Aspekt Press, Moscow, 2017, p. 208.

[7] See: S.S. Zhiltsov, "Politika Rossii v Kaspiiskom regione," Aspekt Press, Moscow, 2016, pp. 149-152.

— There were problems with the transportation of oil through the Turkish Bosporus and Dardanelles due to restrictions imposed by Ankara on the passage of tankers due to environmental concerns. This led to long delays, which entailed material costs.[8]

Another important northern route was *the Uzen-Atyrau-Samara pipeline*, which spanned1,380 km and a design capacity of 30 million tons of oil per year. After the collapse of the U.S.S.R., it was the only pipeline used to transport almost all Kazakh oil to world markets. However, this project suffered due to logistical reasons, as it was inconvenient for entering world markets and therefore, shortly after the collapse of the U.S.S.R., the Caspian Pipeline Consortium (CPC) was created in 1992, with the aim to construct *the Tengiz-Novorossiysk pipeline*. It spanned 1,580 km, with an initial annual capacity of 28 million tons of oil, and a projected increase to 67 million tons. It was commissioned in 2001.

Both of the above pipelines are primarily beneficial to Russia, both from a political point of view (tie Kazakhstan to the northern route of oil transportation) and from an economic point of view (oil transit tariffs).

The CPC project is beneficial to Kazakhstan primarily because of the low tariff for pumping oil through Russian territory—only $27 per ton.[9]

The weak point of the CPC, since it is a pipeline that terminates in Novorossiysk, is the problem of tankers passing through the Turkish Straits.

As for gas pipelines, with the collapse of the U.S.S.R., the only opportunity to export gas for Turkmenistan and Kazakhstan, was *the Central Asia-Center (CAC) pipeline*, which was built in Soviet times. However, this gas pipeline possessed several disadvantages:

— The pipeline has been functioning for 40 years and the pipes' degree of wear is high;

— Insufficient gas pipeline capacity—under 50 billion cubic meters of gas per year. The fact is that the CAC was originally built to transport exclusively Turkmen gas, and currently Uzbekistan and Kazakhstan use it to export their gas;[10]

— Due to the absence of a gas pipeline going towards the west, Turkmenistan and Kazakhstan are completely dependent on Russia, through whose territory the CAC passes, in their gas export to Europe. The current situation allows Moscow to exert both political and economic pressure on Nur-Sultan and Ashghabad, setting a low price for gas (as was the case with Turkmen gas) with a view to its further resale to Europe at a higher price, as well as earning extra money on gas transit.

A. Position of the Republic of Azerbaijan

The official position of Baku in relation to the main direction of export of its hydrocarbons to world markets was determined quite early (back in 1992) and has not changed since then. Of the routes that were available at that time (the northern—via Russia, the southern—through Iran, the western—through Georgia), only the route through Georgia to Turkey's Mediterranean coast corresponded to the national interests of Azerbaijan.

Nevertheless, Baku was forced to agree to transport part of its early oil along the northern route due to two factors:

[8] See: S.A. Pritchin, op. cit., p. 127.
[9] See: Ibid., p. 125.
[10] See: Ibid., pp. 130-131.

— Azerbaijan feared the deterioration of the situation around Nagorno-Karabakh in case of refusal of conditions set by Russia and wanted to lift the transport blockade;

— Moscow's desire to transport Azerbaijani oil produced in the Caspian shelf could also be interpreted as recognition by the Russian authorities of Azerbaijan's right to develop offshore fields. [11]

As a result, since 1996, Azerbaijani oil has begun to be transported along the northern route Baku-Novorossiysk. Although, according to the agreement, Azerbaijan undertook to increase the pumping volume to 5 million tons of oil by 2002, in reality, no more than 2 million tons of oil have been annually pumped through the Baku-Novorossiysk pipeline.[12] Currently, only under 1.5 million tons of oil per year is transported along this route, for the sole reason of avoiding complications in the relations with Russia.[13]

B. Position of the Republic of Kazakhstan

A number of factors initially influenced the position of Astana in the question of choosing a route for transporting oil to world markets:

— Lack of access to international transportation systems, that is, to the World Ocean;

— All the oil and gas transportation systems available in the early 1990s were tied to Russia;[14]

— Russia attempted to use this dependence as an instrument of pressure on Astana in order to maintain control over the newly independent republic;

— The unresolved issue of the status of the Caspian Sea also gave Moscow a reason to prevent the development of offshore deposits in Kazakhstan's coastal waters.

Under the current conditions, Astana began to take steps similar to those that Azerbaijan had taken at the same time—to develop cooperation with Western countries and progressive oil and gas companies in these countries in order to reduce Russia's influence and gain access to modern equipment and oil and gas production technologies both on land and on the Caspian shelf.[15]

In response, Moscow began to obstruct the export of Kazakhstani oil, which led to increased losses and reduced Western investments in the Kazakh economy.[16] This forced Astana to pursue a more cautious policy not only on the issue of oil production, but also on the issue of determining the status of the Caspian Sea. The consequence was that, on the one hand, Astana supported Baku's idea of dividing the Caspian into national sectors, but on the other, proposed to divide only the bottom and leave the waters in common use, which became a compromise between the extreme positions held by Azerbaijan and Russia on the issue of dividing the Caspian.

Under the new conditions, Moscow was now forced to make concessions out of fear of creating a hostile bloc of countries in the Caspian Sea region and, as a result, the threat of being isolated. As a result, agreements were signed in 1998 between Russia and Kazakhstan on dividing the Northern

[11] See: V.A. Guseynov, "Kaspiiskaia neft: ekonomika i geopolitika," Moscow, 2002, p. 88.

[12] See: S.S. Zhiltsov, I.S. Zonn, op. cit., pp. 208-209.

[13] See: T. Mursagulov, "Azerbaidzhan mozhet uvelichit obyem prokachki nefti po Baku-Novorossiysk," *Trend*, 27 January, 2019, available at [https://www.trend.az/business/energy/3011088.html], 10 June, 2019.

[14] See: S. Kushkumbaev, "Vliianiye energoresursov na nekotorye aspekty vnutrennei i vneshnei politiki Kazakhstana," *Tsentralnaia Azia i Kavkaz*, No. 1, 1998.

[15] See: V. Babak, "Neft Kaspia v otnosheniiakh Kazakhstana s Rossiei," *Tsentralnaia Azia i Kavkaz,* No. 1 (2), 1999.

[16] See: S.S. Zhiltsov, op. cit., p. 141.

Caspian into national sectors according to the plan proposed by Astana. In addition, Moscow agreed to joint development of a number of disputed deposits located adjacent to the border.[17]

At the same time, having conceded on the division of the Caspian, Russia kept the export of the bulk of Kazakhstani oil to world markets under its control, using the CPC for this purpose. Astana was forced to accept this because of its close ties to Moscow, the long-spanning border, its dependence on the Russian pipeline system and the general vulnerability of Kazakhstan to Russian pressure. The fact is that despite all the contradictions, it was Moscow that could serve as a guarantor of national security for Astana against external threats.

C. Position of Turkmenistan

The official position of Ashghabad on the export directions of its energy resources initially depended on a number of factors:

— The presence of only one (northern) route for transporting Turkmen gas (Central Asia-Center gas pipeline);

— Low profitability of the northern route, since gas was mainly supplied to the former Soviet republics of the Southern Caucasus and Ukraine. And these countries experienced major economic problems in the early 1990s and did not possess disposable funds to pay for the supplied gas on time and in full.

Only in 2003, after long and difficult negotiations, Ashghabad had managed to conclude a long-term (25-year) contract with Moscow for the supply of gas at prices acceptable to the Turkmen side.

This agreement turned out to be beneficial to the Turkmen side, as it brought foreign exchange earnings, which was allocated for the socio-economic development goals of the country, and a part of the profit was invested in the subsequent development of the gas industry, which allowed to increase gas production.[18]

It should also be noted that Russia benefited from this transaction in the following ways:

— Moscow began to control the gas exports of one of its potential competitors in the European gas market;

— By purchasing large volumes of Turkmen gas and reselling it in Europe, Russia could afford to maintain the volume of gas exported to Europe, thus fulfilling its obligations under the agreements signed with the European states.[19]

However, in 2009, Russia began to reduce the volume of purchases of Turkmen gas, and in 2016 stopped purchasing it entirely.[20] One of the reasons for the refusal was Ashghabad's uncompromising stance regarding the high gas prices.

The termination of the contract hit Turkmenistan the hardest, since the flow of available funds to the budget was reduced and the socio-economic situation in the country was complicated. As a result, in April 2019, after long negotiations with the Russian authorities and Gazprom, a new con-

[17] See: V. Babak, op. cit.

[18] See: V. Ginsburg, M. Troschke, "The Export of Turkmenistan's Energy Resources," *Central Asia and the Caucasus*, No. 6 (24), 2003.

[19] See: M. Karayianni, "Russia's Foreign Policy for Central Asia Passes Through Energy Agreements," *Central Asia and the Caucasus*, No. 4 (22), 2003.

[20] See: S.S. Zhiltsov, I.S. Zonn, op. cit., p. 211.

tract was concluded for a period of five years, providing for the supply of 5.5 bcm of gas per year.[21] Thus, after a three-year break, Ashghabad resumed gas export along the northern route, which continues to be one of the main routes in Turkmenistan's export policy.

Western Routes

Among the western pipeline routes, *the Baku-Supsa oil pipeline* is the most notable. It went into operation in 1999 and spans 920 km, with an annual capacity of 6.5 million tons of oil. The tariff for pumping equaled only $1.2 per ton of oil at the time of completion.[22] The main advantage of the new pipeline was that it was the first completed pipeline project that provided an alternative to the northern route. Azerbaijan's early oil began to be supplied to world markets through this pipeline.

This pipeline's disadvantages include its small capacity—several times less than that of the Baku-Novorossiysk pipeline. The emerging issue of tankers passing through the Turkish Straits posed an additional problem.[23]

Due to the aforementioned shortcomings, *the Baku-Tbilisi-Ceyhan (BTC) pipeline*, commissioned in 2006, became the main export pipeline. It spanned 1767 km, including 443 km in Azerbaijan, 248 km in Georgia and 1,076 km in Turkey. The pipeline's capacity amounted to 50 million tons per year. The main advantages of the new pipeline are:

— The final liquidation of the Russian monopoly on oil pipelines for the transportation of Caspian oil and the loss of strategic importance by the Baku-Novorossiysk pipeline;

— Bypassing the Turkish Straits and direct access to Turkey's Mediterranean coast at the Ceyhan deep-water terminal, capable of receiving supertankers;

— Initial plan to export not only Azerbaijani, but also Kazakh oil to world markets.[24]

Azerbaijan managed to achieve a significant breakthrough in 2007 in the construction of gas pipelines in the western direction with the start of gas pumping through the new Baku-Tbilisi-Erzurum gas pipeline (BTE). Thanks to this pipeline, Azerbaijan began to supply gas to Georgia and Turkey. It spanned 691 km (from Sangachal to Turkey), and its initial capacity was 8 bcm per year.

However, BTE is only the first section of the Southern Gas Corridor project spanning a total 3,500 km from Azerbaijan to Italy. In the summer of 2018, the second part of the project came into operation—the TANAP gas pipeline with a span of 1,850 km (from the border with Georgia to the border with Greece). Its initial capacity is 16 bcm of gas per year, with the potential to increase to 31 billion.

The third part of SGC is under construction and will be completed in 2020. It will be the Trans-Adriatic gas pipeline from the Greek-Turkish border to Italy. Its initial capacity will be 10 bcm of gas per year with the possibility of further increase to 20 billion. This pipeline is intended for the supply of Azerbaijani gas to Italy and countries of Southeast Europe.[25]

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[21] See: G. Gasanov, "Gazprom zakliuchil piatiletniy kontrakt s Turkmenistanom," *Trend*, 3 July, 2019, available at [https://www.trend.az/casia/turkmenistan/3085321.html], 5 July, 2019.

[22] See: K.S. Gadzhiev, *Geopolitika Kavkaza*, Moscow, 2003, p. 431.

[23] See: S.S. Zhiltsov, I.S. Zonn, op. cit., p. 223.

[24] See: S.A. Pritchin, op. cit., pp. 128-129.

[25] [https://www.bp.com/en_az/caspian/operationsprojects/Shahdeniz/SouthernCorridor.html].

A. Azerbaijan's Position

By giving preference to the western route, as well as to cooperation with Western companies, Baku was pursuing at least three goals:

— Move away from Russia politically and begin to pursue an independent foreign policy;

— Establish partnerships with Turkey, the United States, and the West as a whole;

— Seek support from the West in resolving Azerbaijan's most pressing problem—the Armenian-Azerbaijani Nagorno-Karabakh conflict, taking into account the support that Russia provided to the aggressor country, Armenia, at the time;[26]

— Attract Western investments required for the development of oil and gas fields. Russia was not incapable of investing funds at the time;

— Gain access to technologies for deep oil and gas production, which Russia also did not possess.[27]

In general, we can state that Azerbaijan, with the support of Turkey and the West, primarily the United States, has won the confrontation with Russia for the right to develop oil and gas fields in its sector of the Caspian Sea and transport the bulk of oil and gas bypassing Russian territory. As a result, only in 2016, about 12 million tons of Azerbaijani oil was delivered to European countries,[28] which allowed to cover up to 5% of their oil needs.[29]

It should be noted that, as the Southern Gas Corridor project is being implemented, Azerbaijan has made some progress in exporting its gas to neighboring countries, fully supplying Georgia with gas in recent years. Thus, the neighboring country was spared from gas dependence on Russia, and, accordingly, from a significant lever of political and economic pressure. Moreover, every year, as gas consumption in the country increases, the export of Azerbaijani gas there is also growing.[30]

In addition, since 2007, Azerbaijan has begun to supply gas to Turkey and at present, the export volume has reached 7.5 bcm per year. [31] Since 2020, after the final implementation of the Southern Gas Corridor, Turkey will receive 12.6 bcm of Azerbaijani gas annually. Subsequently, the export of Azerbaijani gas to Europe will begin.[32] As a result, Europe will obtain another source of gas imports independent of Russia, which will allow it to reduce its energy dependence on Moscow.

B. Kazakhstan's Position

By exporting the main volume of oil and gas in the northern direction, Astana remained faithful to its most important foreign policy principle—multi-directionality, and decided to also use the west-

[26] See: G. Kuliev, "Geopoliticheskie kollizii Kavkaza," *Tsentralnaia Azia i Kavkaz,* No. 4, 1999.

[27] See: R. Musabekov, "Russia-Azerbaijan: Relations in Theory and Practice," *Central Asia and the Caucasus*, No. 3, 2000.

[28] [www.customs.gov.az].

[29] See: "CPC Research Team Report: Protection and Modernization of Critical Infrastructure—Key to Prosperity and Security," Caspian Policy Center, 23 January, 2019, available at [https://www.caspianpolicy.org/report-protection-and-modernization-of-critical-infrastructure-key-to-prosperity-and-security/], 15 June, 2019.

[30] See: "Postavki azerbaidzhanskogo gaza v Gruziu uvelichatsia," Moskva-Baku, 25 December, 2018, available at [https://moscow-baku.ru/news/economy/postavki_azerbaydzhanskogo_gaza_v_gruziyu_uvelichatsya/], 15 June, 2019.

[31] See: "Postavki azerbaidzhanskogo gaza v Turtsiu vozrosli," *Minval*, 28 February, 2019, available at [https://minval.az/news/123867281], 14 June, 2019.

[32] See: "Stoimost proyekta TANAP mozhet snizitsia eshche bolshe," *Day.az*, 15 June, 2019, available at [https://news.day.az/economy/1129324.html], 17 June, 2019.

ern route through Azerbaijan (BTC pipeline). Moreover, this route was actively lobbied by Turkey and the United States, and it was clearly disadvantageous for Kazakhstan to come into conflict with them. Therefore, in 1999, Nazarbayev signed an agreement on the construction of the BTC.[33] However, without waiting for the completion of the BTC pipeline construction, Kazakhstan began to export oil westward to the Black Sea coast along the following route: Tengiz-Aktau port (Caspian Sea), tankers from Aktau to Dubendi port (near Baku), then via the Dubendi–Ali-Bayramli pipeline and from there by rail to the Batumi oil terminal. In this manner, Kazakhstan annually exported about 2 million tons of oil.[34] Gradually, the volume of exports via this route increased. For instance, in 2016, the volume of transshipment of oil and oil products through the Batumi oil terminal amounted to approximately 3.4 million tons.[35] After the commencement of the BTC pipeline's operation, Kazakhstan joined the usage of this pipeline in 2008, when up to 3 million tons of Kazakh oil was exported annually through this pipeline. However, in mid-2015, Kazakhstani companies stopped transporting oil through the BTC due to the expansion of the CPC, where all Kazakhstani oil was rerouted.[36]

In parallel with the transportation of oil by tankers, projects were developed to construct the Trans-Caspian oil pipeline, capable of linking the Kazakh and Azerbaijani shores of the Caspian. In January 2007, a memorandum of understanding was signed in Astana on the project that involved the creation of the Kazakhstan Caspian system for transporting oil from the Kashagan field to the BTC pipeline. Initially, the capacity of this system was planned at 25 million tons per year with a further increase to 38 million tons. In this case, it was mainly a matter of oil delivery by tankers. But they also discussed the project for the construction of the Aktau-Baku subsea Trans-Caspian oil pipeline with a length of 590 km. However, by and large, these projects have not yet been implemented, since the development of the Kashagan field has not yet been fully implemented, as well as due to the need to fill up the expanded CPC.[37]

C. Turkmenistan's position

Despite the fact that gas was mainly exported via the northern route, the Turkmen authorities never overlooked the prospects of the western direction—through the Caspian Sea to Azerbaijan, and then through Georgia and Turkey to Europe.

But the Trans-Caspian gas pipeline (TCG) project ran into a number of very difficult problems, from the very beginning, as a result of which it was never implemented:

- Mutual claims of Azerbaijan and Turkmenistan to each other regarding the ownership of deposits in the central part of the Caspian Sea—Azeri, Chirag and Kyapaz;
- Change of the role of Baku in the TCG from the transit country to the gas exporting country after the discovery of the Shah Deniz, a large gas field in the Azerbaijani section of the Caspian shelf;[38]

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[33] See: A. Chebotarev, "Kazakhstan: Priority Oil Routes," *Central Asia and the Caucasus*, No. 3 (9), 2001.

[34] See: D. Preiger, I. Maliarchuk, T. Grinkevich, "Pipelines for Caspian oil," *Central Asia and the Caucasus*, No. 4 (22), 2003.

[35] See: M. Tsurkov, "Kazakhstan zainteresovan v postavkakh nefti cherez Azerbaidzhan," *Trend,* 13 November, 2017 [https://www.trend.az/business/energy/2819883.html], 12 June, 2019.

[36] V. Gayfutdinova, "Postavki nefti po BTD budut snizhatsia," *Kapital*, 16 July, 2014, available at [https://kapital.kz/business/31740/postavki-nefti-po-btd-budut-snizhatsya.html], 14 June, 2019.

[37] See: S.S. Zhiltsov, I.S. Zonn, op. cit., pp. 221-222.

[38] See: H. Kuliev, "Azerbaijan: Pipeline Strategy and Pipeline Geopolitical Dimension," *Central Asia and the Caucasus*, No. 3 (9), 2001.

— Gradual divergence of views on the prospects of the TCG between the U.S. and Turkmenistan, as Washington eventually began to lose interest in it in the light of other problematic issues in the Middle East region. In addition, in the Azerbaijani-Turkmen dispute over the volume of gas pumped through the TCG, the U.S. supported Baku's right to half of the volume. This caused serious discontent in Turkmenistan, as a result of which Ashghabad signed a long-term gas supply contract with Russia, temporarily abandoning the TCG project.[39]

Additionally, it is important to recall that in addition to gas, Turkmenistan possesses oil reserves, although not as vast in size as its gas reserves. In recent years, production has reached 10-11 million tons per year. Approximately half of this amount is consumed domestically, the remaining amount is exported. It should be noted that the export of oil and oil products from Turkmenistan is difficult, since there are still no export pipelines in the republic. As a result, oil was exported for a long time, tentatively speaking, in the northern direction (by tankers through the Caspian Sea to Makhachkala, then through the pipeline to Novorossiysk and again by tankers to world markets) and in the southern direction (by tankers to Iran and then via pipelines to oil refineries in Tabriz and Tehran.[40]

In July 2010, an agreement was concluded between Azerbaijan and Turkmenistan on pumping Turkmen oil through the Baku-Tbilisi-Ceyhan oil pipeline.[41] In 2018, 4.2 million tons of oil were transported in this manner. That is, most of the exported Turkmen oil was transported to world markets through the western route. At the end of 2019, less than 4 million tons are expected to be transported, which is associated with the resumption of export of Turkmen oil along the northern route. It is anticipated that approximately 1.5 million tons of oil will be exported by the end of the year.[42]

Conclusion

The twenty-five years since the arrival of Western companies in Azerbaijan, and later—Kazakhstan and Turkmenistan, with the aim of developing oil and gas fields, have altered the position of the above-mentioned Caspian states regarding hydrocarbon production and export. In particular, in Azerbaijan, oil production is reduced every year due to the depletion of developed fields. But gas production is growing and thereby the republic is gradually changing its profile, re-qualifying for gas production and export. Oil production is still quite low in Turkmenistan, but gas production is growing. As for Kazakhstan, the volumes of oil and gas production are increasing there with every year. In this regard, it is expected that the available northern oil pipelines may not be enough to export the growing volumes of produced oil. In that case, the western route through Azerbaijan may come into play. In particular, a Trans-Caspian oil pipeline from Kashagan to Sangachal (where it will be connected to the BTC) may be built within the framework of the second phase of the development of Kashagan. Moreover, the Kashagan field is offshore—on the Caspian shelf. Thanks to this, transportation of Kashagan oil, unlike Tengiz oil, will be spared from such technical difficulties as loading oil into tankers and unloading them in Alat. It will be more commercially profitable as well. But for the implementation of the TCO project, the volume of oil production at Kashagan is important. Specifically,

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[39] See: S. Kamenev, "Turkmenistan: Energy Policy and Energy Projects," *Central Asia and the Caucasus*, No. 4 (22), 2003.

[40] See: "Neftegazovyi kompleks Turkmenistana," *Zhivoi zhurnal*, 11 November, 2010, available at [https://iv-g.livejournal.com/353097.html], 22 June, 2019.

[41] See: M. Nasibova, "Transportirovka po BTD turkmenskoi nefti dostigla svyshe 3 mln tonn," Sputnik, 8 September, 2011, available at [https://az.sputniknews.ru/azerbaijan/20110908/296350241.html], 18 June, 2019.

[42] See: D. Savosin, "Azerbaidzhan sokratit tranzit turkmenskoi nefti v sviazi s vozobnovleniem ee tranzita cherez Rossiu," *Neftegaz*, 25 March, 2019, available at [https://neftegaz.ru/news/transport-and-storage/193513-azerbaydzhan-sokratit-tranzit-turkmenskoy-nefti-v-svyazi-s-vozobnovleniem-ee-tranzita-cherez-rossiyu/], 17 June, 2019.

the construction of the pipeline will be profitable if more than 10 million tons of oil is transported through it, which seems quite realistic in the medium term.

Of course, the implementation of the TCO project will be beneficial both to Nur-Sultan, which will deliver its oil directly to Mediterranean ports, bypassing the Turkish Straits, and Baku, which will earn on transit. Moreover, over the past few years, due to a drop in oil production in Azerbaijan, about 34 million tons were transported annually through the BTC, including about 4 million tons of transit oil.[43] Thus, the free volume of the pipeline is about 16 million tons, and it may be filled with Kazakh oil from the Kashagan field in the future.

It should also be noted that recently the negotiation process between the EU and Turkmenistan has intensified not only in regard to strengthening ties, but also on the issue of supplying Turkmen gas to Europe through the Trans-Caspian Gas pipeline (TCG) project. In addition, Turkmenistan's relations are gradually being established with the main transit country for Turkmen gas, Azerbaijan.

As for the TCG itself, according to the basic plan, a pipeline spanning about 300 km should be built, directly connecting the Turkmen and Azerbaijani shores of the Caspian. It is estimated that the capacity of the TCG will be 31 bcm of gas per year, and its cost is estimated at $1.5-2 billion.[44]

Nevertheless, the implementation of the project, despite the already achieved breakthrough steps, is facing a number of problems, one of which is the financing of construction. In addition, the problem of the ecology of the Caspian remains strong, which Moscow and Tehran can take advantage of and impede the implementation of the project. In this regard, some Western experts suggest abandoning the construction of a full-fledged gas pipeline, and build a connector between the offshore gas fields of Azerbaijan and similar fields in Turkmenistan. In this case, the length of the pipeline will be reduced to a third of its length, and the cost will not exceed $500 million. Thus, it will become possible to sharply reduce the TCG project costs, and Russia and Iran will more easily agree to this gas pipeline version than to a full-fledged pipe.[45]

However, even if the above problems are resolved, there still remain a number of controversial issues that need to be addressed:

— Lack of accurate data on recoverable gas reserves in Turkmenistan, since Ashghabad does not allow foreign experts to conduct independent audits of the country's gas reserves;

— Absence of specific proposals for the sale of gas on the part of Turkmenistan and the purchase of gas on the part of the EU;

— Ashghabad does not allow international companies to conclude production sharing agreements and participate in profits. Moreover, the country itself is unable to independently invest large sums of money either in exploration or the development of gas fields;[46]

— Conflict of Baku's and Ashghabad's interests. In order for TCG to become profitable, at least 30 bcm of gas must be pumped through it annually. Thus, Turkmen gas may occupy the entire volume of the Southern Gas Corridor, designed for 31 bcm of gas per year. But Baku will soon be able to fill the TCG entirely with its own gas due to an increase in gas production and export. Thus, in 2018 Azerbaijan exported 9.5 bcm of gas, by 2022, 25 bcm are projected for export, and in 2025 the exports should amount to approximately 35 billion;

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[43] See: "Baku-Tbilisi-Dzheykhan uvelichil prokachku turkmenskoy nefti," Regnum, 24 January, 2018, available at [https://regnum.ru/news/2371892.html], 1 July, 2019.

[44] See: P. Leonard, "Caspian Agreement May Trigger Cascade of Energy Projects," Eurasianet, 8 August, 2018, available at [https://eurasianet.org/caspian-agreement-may-trigger-cascade-of-energy-projects], 2 July, 2019.

[45] See: L. Coffey, E. Nifti, "A Trans-Caspian Gas Pipeline: Start Small but Aim Big," Caspian Policy Center, 29 May, 2019, available at [http://www.caspianpolicy.org/a-trans-caspian-gas-pipeline-start-small-but-aim-big/], 3 July, 2019.

[46] See: R. Morningstar, "A Trans-Caspian Pipeline Still Far Away," *Caspian Affairs*, May 2019, available at [http://www.caspianpolicy.org/caspian-affairs-magazine-2/a-trans-caspian-pipeline-still-far-away/], 5 July, 2019.

— Low quality of Turkmen gas, which contains a large amount of sulfur. As a result, before deliveries of this gas to consumers, it will need to be processed. And this, therefore, will automatically lead to a rise in the cost of Turkmen gas for end consumers.

In view of the foregoing, the construction of the Trans-Caspian gas pipeline in the short term does not seem profitable. And if the TCG is still to be implemented, then it will be a purely political project lobbied by the United States.

In general, the western routes of oil and gas pipelines seem preferable for logistical reasons. Oil pipelines bypass the Turkish Straits, and there is a shorter way for the gas pipelines to enter the European market. But generally, geopolitical, rather than economic factors are the decisive ones. As a result, the specific route for transporting oil or gas depends on the lobbying efforts made by one or another interested party: the West represented by the U.S., the EU and Turkey, or Russia.