CHAPTER - III

GEOPOLITICS AND ENERGY RESOURCES IN CENTRAL ASIA

The vast oil and gas potential of the Caspian Sea Region (CSR) countries (Kazakhstan, Turkmenistan, Uzbekistan, Russia, Iran and Azerbaijan) has attracted a lot of geopolitical attention after the disintegration of Soviet Union. Initially, in the nascent stage of their independence, it was assumed that these countries would come under Iranian and fundamentalist influences.¹

But when this proposition proved to be wrong, there developed an intense international rivalry to influence and control Central Asia’s hydrocarbon resources. The main players include Russia, Iran Turkey, China, India, Pakistan and the United States. Saudi Arabia, Israel and the multinational oil companies from various countries also play a smaller role.²

There are two issues that are related with hydrocarbon resources in the region. The first is the geopolitics surrounding oil and gas and the second is the pipeline diplomacy, i.e. politics over providing outlet of these resources from the landlocked Central Asian region.³ Both these are interrelated issues.

The Caspian Sea is the largest ‘lake’ in the world and divides Europe and Asia and links the Caucasus, Central Asia, South west Asia and Russia. It has an area of about 3,71,000 square kilometers with an ultra depth of 1,025 meters. The Sea is 1,200 kilometers long and 320 kilometers wide. Its average surface height is 28 meters while salinity is 12.7 per thousand. There are about 50 islands in the lake with a total area of 350 square kilometers. The Caspian basin is shared by five countries viz Russia, Kazakhstan, Turkmenistan, Iran and Azerbaijan.

Despite being richly endowed with natural resources, the region suffers from geographical isolation and remoteness from international waterways. The tyranny of distance that these countries suffer from has been exacerbated by lack of effective cooperation among the countries of this region. Hence they are increasingly dependent upon the outside world for trade and transportation of their natural resource. At the same time, it makes these republics dependent on their neighboring countries for the transit of oil and gas through a network of pipelines.

Although the large scale discovery and exploitation of oil in this region took place in 1950’s, this region has a long history of oil industry. The Central Asian oil was strategic factor in both the World War.

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Germany’s failure to secure access to the Caspian oil resources was a major reason of its defeat in 1918 and 1941. In the 1941 war, Germany unsuccessfully launched a series of campaigns to take possession of the region. Its campaign failed and Germany lost the war. As David Yengin points out, ‘the German ran out of oil in their quest for oil.’

Since the early 1950’s several developments took place that led to substantial reduction in the Caspian oil production. The Soviet government became concerned over Baku's vulnerability to attack during the Second World War. Apart from this, the discovery of oil in the Volga-Ural region of Russia and later in Western Siberia, led to a switch in the investment priorities of the former Soviet Union. But, since the independence of the Central Asian and Caucasus countries, the region has gradually occupied center stage in the global energy markets.

In the present times, the Central Asian and the Caspian regions ascendance as the most lucrative oil region is because of the following factors—

(i) The international oil companies have been derived access to the hydrocarbon resources in the Middle East for political reasons.

(ii) There is a current and projected decline of production in regions such as Alaska and the North Sea.

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7 Ibid, p. 337.
9 Several major oil producers like Saudi Arabia and Kuwait were strongly opposed to foreign investment in their energy sector. Others like Iran, Iraq and Libya have been under either US unilateral or U.N. multilateral economic sanctions.
(iii) The Caspian Region has some of the largest underdeveloped oil and gas reserves in the world;

(iv) The Central Asian and Caucasus had very weak economies on gaining independence. Utilisation of the vast hydrocarbon resources was one way to develop their economies. Since these countries lacked the financial resources for exploration and exploitation of these resources, they invited foreign investment.

(v) The world economy is growing at a rate of 3 per cent annually. In such a growth rate, the world energy requirement shall increase by 2 per cent per annum. The world will need 65 per cent more energy in 2020 than in 1995. Of this, ninety five per cent will be met by fossil fuels. Central Asia's fuel production shall help to fulfill this requirement. 10

Russia has made sustained effort to subordinate Central Asian states and its policies and also aims to reduce their independence. But to counter Russian policy, these states interact vigorously with the powers that have regional influence. Central Asian states are not merely helpless objects of external machinations that analysts and experts had postulated. Rather, they act to enhance their ability to interact freely with all other states playing a role in Central Asia despite Russian policy. 11 The present chapter deals, with this international rivalry since Moscow openly employs economic pressure and threats of coercion in energy policy.

Energy and related economic sectors are the most prominent aspects of this new rivalry.

The struggle over energy resources can be studied in the broader context of the efforts of foreign states to influence Central Asia’s economic and political integration. Obviously control over economic translate into political influence.

In its 1994 Russian National Security Concept, the journal Observer state that the entire agenda of current security matters boiled down to two issues, (i) the supply of Russian fuel and raw materials to other members of the CIS, and (ii) the combat involvement of Russian troops in conflict within the former Soviet borders. Thus it made the link between energy and security explicit. The journal noted that all the CIS members increasingly depended on restoring foreign trade with Russia especially in energy. This dependence is however not by choice but compulsion.

A fundamental problem for the trade of oil and gas from the Central Asian countries is that these are landlocked states and are far from the major world trade routes. If they are to trade abroad on their own, they must invest massive amount of capital in transportation, infrastructure etc. This amount is beyond their means and in the current existing transport system all traverse Russia as Soviet planners planned regional dependence on Moscow. Central Asia as a whole faces desperate and worsening economic,
demographic and ecological problems.\textsuperscript{13} Hence the investment in transport and infrastructure must come from abroad.\textsuperscript{13} The revenues from oil are such that they can finance investment, modernize and diversify the local economies. Formerly, control over transportation system had been prerequisite for control of Central Asia.\textsuperscript{14} In the present situation the state which controls trade and pipeline routes for goods and oil decide the regions economic and political destiny. In this context the Russian energy policy is dangerous to Central Asia. Russia, to cite Washington Post, is blackmailing Kazakhstan and Turkmenistan regarding energy exploration and transshipment and holding them ‘hostage’.

The new geopolitical situation is complex and is further complicated by a vast array of problems. Within the region, these include intra regional conflicts, internal political instability, unscrupulous entrepreneurial operators and a shortfall in commercial expertise and legal infrastructures. Beyond the region, lie the threats of competing neighbours. Kazakhstan and Turkmenistan which share the majority of the regions energy deposits, are landlocked, and therefore, depend on their immediate neighbours for export. This makes them vulnerable to their neighbour’s problems and sometimes, to become a pawn in the rivalry of the larger powers adjacent to Central Asia.

There is thus no doubt that the region has regained its strategic importance in totally different framework. Since 1994, United States and the international consortium of western oil companies have started to shift their focus away from the Persian Gulf to the Central Asian and Caspian sea region. The region around greater Caspian Sea contains somewhere between 90 billion and 200 billion barrel of oil and 46 percent of world's gas reserves. The geopolitical considerations are becoming crucial factors in winning contracts and routing gas and oil pipelines. The increasing western interest to exploit the oil and gas deposits in the region has challenged Russia's claims in the region where it traditionally had influence. The entry of multinational companies is changing both the economics and political dynamics in the region.

The hydrocarbon deposits are a great source of hope in economic and political terms for these states, particularly when they are in the infant stage of the nation building process. The oil revenues in some states may result in widening the economic disparity among the states within, as well as outside the region, and hence oil could become a cause for insecurity among Central Asians. In such a situation, it is natural that the smaller states will try to seek a security guarantee from outside world which may then lead to large scale outside intervention. The potential mileage that the bigger states obtain by oil will enable them to aggressively pursue their geo-political goals in the region thereby, exacerbating the existing inter-state and inter-ethnic conflicts. The pipelines could contribute to peaceful
development of the region but they could as well turn to future conflict lines. The security considerations have already become important. The North Atlantic Treaty Organisation (NATO’s) proposed eastward expansion, the effort by the US and the European countries to resolve their conflict in the region within the framework of Organization for Security and Cooperation in Europe (OSCE or NATO’s) “Partnership for Peace” (PfP) programme is linked to the geopolitics of oil.\textsuperscript{15} The use of oil as weapon is confined not only to the oil exporting countries but also to the states through which this oil passes. The military exercise, Centrabat – 97, in which 5000 paratroopers from the 82\textsuperscript{nd} Airborne Division of the US Army flew 19 hours and 12,320 km to join week-long joint exercises with 40 airborne troops from three Central Asian States demonstrated the changing geo-political game in Central Asia. Although the exercises, an unprecedented event in the post Cold war era was meant to be against the potential rival countries to the South viz. China, Iran and the Islamic threat form Afghanistan it also had close linkage with oil products.\textsuperscript{16}

The Caucasus and the Central Asian region have historically enjoyed considerable geo-strategic importance as regards oil production. The geopolitical factors affecting oil development exploration and export in this region include:-


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(i) The political interests and policies of external parties (Russia, Turkey, China, Pakistan, US along with other developed countries and the multinational oil companies).

(ii) The Caspian Sea dispute – it highlights the intra-regional competition

(iii) The internal problems of the countries of the region, and

(iv) The technical and commercial impediments to implementing oil projects.

GEOPOLITICAL CONSIDERATIONS ON OIL

The presence of oil in Central Asia can be recorded as far back as the thirteenth century. Caspian oil has played a key strategic role in world politics, throughout the twentieth century. It was frequently the source of tension between external powers. But, by the end of the nineteenth century as the technology developed, oil emerged as the main factor in the competition among the concerned parties. The Caucasus and Central Asia was no longer just a point of access to the riches of South Asia, in particular India, but a lucrative prize in itself.\(^\text{17}\) The mineral wealth of Central Asia in Turkmenistan and Kazakhstan was discovered in the 1950's. From the mid-nineteenth to mid-twentieth century, most of competition for oil took place over reserves in the Caucasus region of the Caspian.

The Soviet domination of Central Asia and the Transcausus region lasted for more than one hundred years. The disintegration of the Soviet Union in December 1991 created a power vacuum in the region. It triggered jockeying for influence by several external players, big and small.

Several regional organizations were created to overcome the need for regional economic and security cooperation. These new regional organizations include the Commonwealth of Independent States (CIS); Partnership for Peace; Black Sea Economic Cooperation Pact; the Shanghai Cooperation Organization; Georgia Ukraine Uzbekistan Azerbaijan and Moldva Group (GUUAM); Conference on Interaction and Confidence Building measures in Asia (CICA), Economic Cooperation Organization (ECO). Most of these organizations were created, or expanded, after the collapse of the Soviet Union.18

The experience of regional and international rivalry in Central Asia and Transcausus can be understood by the interest shown by various countries and oil giants. The geopolitical factors under which this rivalry is taking place should be taken into consideration for a cleaner analysis of situation:

(i) The military and strategic balance of power in the region is very fragile. The region is surrounded by four nations with nuclear capability (Russia, India, China and Pakistan). Turkey is a NATO member while Iran

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has hostile relations with USA. Finally, the instability that led to September 11 terrorist attack has been a constant threat to overall regional stability.\(^{19}\)

(ii) the Caspian hydrocarbon wealth is at the heart of this rivalry between regional and international powers.

(iii) ironically the speed of exploitation of the regions energy resources has slowed down because of the competition between regional and international powers.

(iv) The contenders have realized that complementarity rather than competition shall develop the regions oil and gas fields and pipelines. It is under these circumstances that main guidelines of the external powers may be examined.

**Russia**

Among all the external political players that are competing to influence the Central Asian states, Russia is probably the most dominant at present. This dominance is not because Russia has gained confidence of the Central Asian countries, but because the countries, having become independent from the Soviet Union only in 1990 and are still heavily dependent on Russia for its security and economic needs.

Russia has strategic and commercial interests in the Caspian region.\(^{20}\) Russia, along with the Caucasus and Central Asian republics of


the former Soviet Union are the members of the Commonwealth of Independent States. Hence, Russia claims that it has a legitimate role to play to safeguard and security interest of itself and other CIS members. Some analysts argue that such an effort on the part of Russia is intended to re-establish its influence in the Near Abroad. Russian elite see this as a means to check American penetration in Central Asia.21

Moscow can influence the oil and gas industry in these regions in a number of ways: (i) as an investor or partner in the field development and pipeline project (ii) as transit country for their exports (iii) as a competitor in most of these markets and (iv) as a market in its own right.22

On the legal status of the Caspian, Russia holds that it is not a sea but a lake. Thus it argues that the Law of Sea cannot be applied to the Caspian. In the beginning, the Russian stand was that the Caspian Sea belonged to all the countries and should be kept in its original status and should not be divided. However, in November 1996, Russia changed its position when it proposed a 45 mile coastal zone beyond which there would be a condominium approach to the problem.23 It changed its position again in which it decided that the disputing sides should jointly divide the seabed but not the column of water above the bottom.

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Russia's current policy towards oil in the region is characterized by two basically contradictory schools of thought. The first has been exposed by Yevgeny Primakov and other officials who interpret Russian policy within a traditional balance of power framework. According to Robert Barylski, on 21 July 1994, former Foreign Minsiter Anderi Kozyrev and Primakov convinced Yeltsin to sign a secret directive on protecting the interest of the Russian Federation in the Caspian sea which argues clearly that Russia should maintain its sphere of influence in the region.24 The group views oil as a central instrument in maintaining their influence in the region.

The propagator of the second school was Viktor Chernomyrdin and the other oil industry officials. They have not hesitated in welcoming western participation in the development of Caspian oil. They take this opportunity to have access to advanced technology and also to gain foothold in world oil market. The two views of the Russian school are contradictory and as such have not received the expected response.

Russia controls the only major export pipeline of Kazakhstan. It is now putting pressure on Kazakhstan to cooperate on the construction of a second pipeline, which also plans to run through Russia. In June 1994, Kazakhstan openly accused Russia of decreasing the volume of Kazkh oil

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24 Barylski, V. Robert, "Russia, the West and the Caspian Energy Hub", Middle East Journal Vol. 49, No.2. 1995, p. 63.
through the existing pipeline to force Kazkhstan to accede to Russian political and economic demands.25

While oil and gas account for 45-50 per cent of Russia’s export earnings, most of Russia’s resources lie scattered in the Caspian Sea, Siberia and the shelves of the Barents and the Karelian Sea.26

Russia has proposed the “Northern Russian Plan”. In this plan, the pipeline will run from the Tengeze oilfields to the Black Sea port of Novorossiyask in southern Russia where oil tankers will be loaded for oil market. If this new plan materializes, it will dramatically increase Kazakhstan’s capacity for oil export. The project, if takes off, will be implemented by the Caspian Sea Oil Pipelines Consortium in which investment will come from the Russian Lukoil, the American Cheveron and Mobil and the Kzakh and Omances oil companies.

Under Vladimir Putin, Russia has followed an aggressive energy policy enhancing the contribution of the oil and gas industry in the domestic economy.27

The private companies have gained dominance through mergers. In April 2003, two major Russian’s oil companies, Yoks and Sibneft announced their merger and thus became the fourth largest oil company in the world worth $35 billion. The new company called Yukosibneft

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26 Timothy L. Thomas and John Shull, Perceptions, Vol.IV, No. 4, December 1999-February 2000, p. 82.
commands the largest resources of about 20 billion barrels and can produce 2.3 million barrels of oil per day. Overall, it appears that despite profound disagreements in Moscow about the appropriate view of Russia’s strategic and commercial interests in Central Asia, and correspondingly fragmented policy implementations, Russian continues to exercise significant influence over the region. With the increase in oil production from the new oil rich states, the degree of Russian influence will depend critically on Moscow’s developing stance with respect to joint venture in the area, and the direction in which the export infrastructure develops.

Three conclusions can be drawn from Moscow’s policy in the Caspian since the early 1990’s. First, that Russia has many more economic and strategic levers than the U.S. or any other power. It means that developments in the region can be directly influenced by Russia. Second, Russia’s Caspian policy is increasingly being driven by pragmatic considerations rather than strategic ones. Finally, Russian oil and gas companies are heavily involved in most multilateral energy consortia in the region.

United States

The collapse of the Soviet Union in 1991 presented the United States with a great opportunity to enhance its commercial interests and energy

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security. For the U.S., the Caspian Sea region is like a walking giant. Its resources are important for ensuring prosperity in the future.

In the present times, the US stands behind all the strategically important processes in the Caucasus and Central Asia. Since 1994, the US government has maintained a persistence in its regional policy on the Caspian issue. The US Department of State in its Caspian Region Energy Development Report outlined the certain basic principles for the US policy in the region.

The US has three main policy targets in the region. The first is to support the sovereignty and independence of 5 countries of the region. The US views oil as the key to economic viability of these countries. Second, the US justifies its own commercial involvement in the oil production and export in the region. The basis of argument is that it will facilitate the region's entry into the world economic market. Such commercial involvement could also strengthen the US presence in Central Asia. Finally, it is hoped that the involvement of US companies in successful and lucrative oil deals will also bring economic benefits to the US. Third, US policy intends to diversify the world oil supplies to reduce future dependence on Persian Gulf oil. This is strategically important because, by the year 2010 the world oil supply will not keep pace with the demand created by economic growth. The US opposes a Russian monopoly over oil and gas in the region.

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The US perception is that the rapid development of oil project is crucial for the Caucasus and Central Asia, because the countries tend to be poor, and hence are economically dependent of Russia. The US oil policy in the Central Asian region relies on 4 main instruments:—

(a) active diplomatic support to the Central Asian countries from the embassy officers to the President. The higher officials in the US have worked actively to pursue its goals in the region. The US is also taking interest in the Caspian Sea demarcation issue.

(b) government trade and commercial bodies, including the overseas private investment corporation, are already involved in projects.

(c) provides substantial technical assistance to help these countries develop their legal and commercial infrastructures to meet modern needs and facilitate oil development and export projects.

(d) support for International Financial Institutions (IFI) efforts at institution building and infrastructure polices in these countries.³⁰

The US has promoted long and short route pipeline in 1994 because it encourages commercial competition and at the same time keeps tariff rates lower thereby protecting exports. There is no dependence on any single route. USA is promoting route through Turkey (as one of several routes). By this, the pipeline capacity to export oil form Caspian region will increase. There will be less pressure on the Russian pipeline system.

Oil companies are in the process of sorting proposals for medium- and long-term exports at their own level. This includes cost estimates and risk assessments. The US has been careful not to push ahead the commercial game without having financial backing. The parameters described above define the policy to date. As the situation evolves, US policy-makers will further redefine those parameters in a way that best suits their national interests.

The US policy has been to block Russia and Iran from becoming transit nations for the Caspian oil. The US intends to break the Russian monopoly over oil and gas pipelines in the region. The US has sought to vigorously isolate Iran and undermine Tehran’s efforts to play any role in developing the region’s infrastructure. There are two reasons why the US is against Iran’s involvement in the region. First, because Iran provides the easiest, fastest and cheapest route to transport the Caspian oil and gas. It thus creates a contradiction between the U.S. commercial interests and strategic ones. Second, it is believed that Iranian inclusion in the US pipeline proposal would bring Moscow and Tehran closer. It would unnecessarily create pressure on the U.S.

America is also reviewing other alternative pipeline plans. It is planning an alternative to the expensive Baku-Ceyhan pipeline. It will run from Baku to the Georgian port of Supsa on the Black Sea.

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Turkey:

Turkey's ties with the Turkic ethnic groups is very strong. These ties were weakened during the Soviet period. But the demise of the Soviet Union has given Turkey an opportunity to renew its historical association with its ethnic groups in the Caucasus and Central Asia, and to increase once more its influence in the region. This issue has been on high priority for Turkish foreign policy. In an attempt to profit economically from new investment opportunities Turkey has presented itself as a development model for the newly independent states. Turkey has concluded a number of political, military and economic agreements with the Caucasian and Central Asian states, and commercial ties have deepened, particularly since 1991. However despite the rhetoric that the 21st Century would be a 'Turkic Century', Turkey has not been able to directly challenge Russia in domination and control over its near abroad.

The rich hydrocarbon resources surrounding Turkey has increased in its significance. Azerbaijan is the most strategically located state for Turkey. It is considered to be gateway to Central Asia.

Turkey's relations with Azerbaijan are of a "special nature" due to the latter's strategic location as a gateway to Central Asia, as a potential

economic partner with huge petroleum resources and as a natural allay in containing Russian influence in the Transcaucasian region. 

So as to have unimpeded access to Azerbaijan and to reduce the Russian presence in Transcaucasia, Ankara is keen to have good relations with Armenia and Georgia. But the Nagorno Karabagh problems comes as a hindrance in Turkey's path.

Turkey's main concern has been limited to transportation of the Caspian oil to foreign markets. It proposes to build pipelines through Turkey. The Baku – Ceyhan pipeline project is one such option. This pipeline starts from Baku and ends at Ceyhan. It would run for 468 kms. through Azerbaijan, 225 kms. through Georgia and 1,037 kms. through Turkey. This pipeline is expected to have a capacity of 45 million tones per year. This project has faced some obstacles. In the Transcaucasus, all the states have staked a claim to the passage of pipeline through their territory.

In May 2000, Turkey, Azerbaijan and Georgia finalized a scheme to build the 1,730 kms pipeline costing $ 2.4 billion. Plans for a pipeline through Turkey may also be complicated by Ankara's struggle with Kurdish separatists in the region through which the pipeline would pass. 

But a decline in Kurdish terrorism during the past two years, and the


Turkish government’s pledge to provide protection for the pipeline may help ease concerns on this point.

Another problem for Turkey’s pipeline hopes is that oil from Kazakhstan would have to go through Iran, war-torn Armenia or politically precarious Georgia before reaching Turkey. None of these routes is particularly secure; all pass through politically unstable regions. The lack of infrastructure for pipelines is a problem, which Turkey will have to cope with.

To ensure that Turkey does not have a stronghold in the pipeline issues, Russia has proposed alternative pipeline routes. In 1994, Russia proposed to lay a Trans-Balkan pipeline from Bulgaria’s port of Burgas to the Greek Aegean Sea port of Alexandropolis. It would bypass the Turkish straits. Another alternative pipeline proposal is based on the transportation of the Caspian oil through Croatia.

Initially the Turkish model for development was put forward by the Western and Turkish media as the desirable model to be followed by the newly independent Central Asian States. Turkey was a secular Islamic country and was closely allied with the West through NATO and the European connection. Both Turkey and Central Asian states were enthusiastic about the new model. Turkey made significant attempts to increase its presence and influence in Central Asia. It made many

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38 Ibid.
agreements with the Central Asian states soon after establishing diplomatic relations with them.

Turkey has emerged as a significant economic player in Central Asia. It is the third biggest trading partner of Kazakhstan. More than 300 Turkish companies are operating in Kazakhstan. In September 1997, when the Turkish Prime Minister, Mesut Yilmaz visited Alma-Ata, he announced a $300 million credit in support of small and medium size enterprises there.

In conclusion it can be said that Turkey's strategic locations in the region is crucial to planning of any pipeline networks. Turkey's experience in building and operating international pipelines is an advantage in Turkey's favour.\textsuperscript{39} It's port at Ceyhan on the Mediterranean already receives annually 83 million tones of oil from Iraq.

\textbf{Iran}

Iran is considered as a serious contender for exporting the Caspian gas and oil. This is because there is a well developed oil and gas transportation infrastructure in Iran. An added advantage is that Iran has a vast internal market in its north which could absorb up to 300-350 thousand barrels of oil per day.\textsuperscript{40} Iran is seriously interested in playing an


active role in solving the transportation of oil and gas resources of the Caspian republics.

Iran is seeking shares in a number of Caspian oil and gas development and export ventures. It is planning both short and long-term export arrangements through pipelines as an alternative route to the Russian pipeline. Iran is planning short-term arrangements for pipelines but in the long run the value of Central Asian oil depends on its efficiency to deliver it to the western markets. 41

In February 1992, Iran hosted a meeting of the Economic Cooperation Organization (ECO). The participants were Iran, Turkey, Pakistan, Azerbaijan, Turkmenistan, Uzbekistan, Tajikistan and Kyrgyzstan. It discussed Caspian issues. It also tried to take a regional leadership role in economic affairs. ECO agreed to set a Caspian Cooperation Organisation (CCO) with its headquarters in Tehran. 42 In Tehran in April 1992 in a conference on Caspian cooperation, the participants signed a protocol on the protection of the Caspian environment, navigation, passenger traffic between their respective ports, and related issues. 43

Iran is concerned about two possible threats regarding the geopolitics of oil in the region. It fears being excluded from a future Caspian Sea grouping, like the Gulf Cooperation Council in the Persian

42 Ibid. p. 291.
43 Ibid.
Gulf. Iran is also concerned about the hostile foreign penetration into the region by countries like US. Iran can serve as an alternative to Russia and Turkey for smaller countries like Armenia and Georgia. A pragmatic Iran could be a potential window to the outside world. Turkmenistan, Armenia, and Azerbaijan can truly benefit from Iran as a gateway to the outside world. This is because these share common borders with Iran. Kazakhstan can also reach the sea via the Caspian Sea and Iran. Agreements between Kazakhstan and Iran regarding oil exchange demonstrates the ability of expanding cooperative programme between these two countries.

On the oil related issues, Iran's relationship with Kazakhstan has developed quiet strongly. An agreement has been signed between these two regarding exchange of oil credits.

Attempts have been made by Iran to have cooperation with Russia, Turkey and West European countries. But these were not successful because these were alliances of convenience and many of them may not be long lasting. Iran has cooperated with Russia on the Caspian boundary demarcation issue but of no avail.

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44 Iran is not a member of the GCC which was formed in 1981. The GCC comprises Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the UAE.
46 Ibid.
America has not been able to cooperate with Iran on the Central Asian issues, because of Iran’s uses of terrorism as a foreign policy tool. Other Western countries have adopted soft stance towards Iran.

In conclusion, it can be said that Iran retains its strategic significance in the region because of its geographical location. Because of oil and natural gas, Iran has provided access to the once impenetrable Central Asia (when it was a part of Soviet Union). It is because of the hydrocarbon richness of Central Asia and the Caucasus that Iran has made a long term policy for Central Asia.

China

China is also possible model for the countries of the Caucasus and Central Asia. China is attractive alternative as it is based on communist ideology and thus suits the conservative and authoritarian leaders, who wish to reform economically but not politically: Uzbekistan claims that the Chinese model might serve as a better model than that of the West. Relations between China and the Central Asian countries have been congenial. Some tensions with Kazakhstan exists over Chinese nuclear testing at Lop Nor. But according to scholar Ross Munro, trade between China’s north-western Xinjiang Autonomous Region and Kazakhstan is responsible for much, if not most, of Kazakhstan’s economic growth in

Uzbekistan and Kyrgyzstan have sought closer relations with Beijing, and China has become one of their largest trading partners outside the former Soviet Union.

Many foreign companies have been invited to China to help explore and develop the Chinese Tarim basin region for oil. China has kept some promising oil field for itself even though it lacks capital.

If Kazakhstan’s oil projects continue to develop, and provided that and the political and economic conditions are favourable, China may be interested in lining up West-East pipeline taking Kazakh and Chinese oil to the Far East. It may involve the participation of Korea and Japan. Such a proposal might take them to develop. Any oil or gas pipelines linking China with Central Asia and the Caucasus would be very long and costly, traversing vast stretches of difficult terrain. Central Asian countries have shown interest to involve China in its oil projects.

Turkmenistan began discussions in 1992 with Beijing and the Japanese Company Mitsubish for gas pipeline to China. In 1995 Kazakhstani President Nazarbayev and Chinese President Jiang Zamin agreed to study possible oil pipelines connecting western Kazakhstan with the eastern coast of China.

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Pakistan:

Pakistan is not a strong contender for power in Central Asian region. Its significance increases because it has close proximity to the central Asian region. It was used initially by Iran to spread fundamentalism in Central Asia. In recent times, Pakistan has gained significance because it could provide an outlet to the pipelines to the Karachi port. But Pakistan itself is confronted by problems. Pakistan faces problems of chronic unrest in Afghanistan, which lies between Pakistan and the Caucasus and Central Asia. In addition, the Pakistanis also have problems in their own country like the problem of management of their port in Karachi.

Institutions and other Countries

Other Western and developed countries—the UK, France, Japan and Italy-share similar policy goals with the US. They want to see a stable, independent, secular democratic and market-oriented countries in the Caspian region. They have provided aid and trade programmes with the regions’s countries similar to those of the US. Apart from the political and aid cooperation, there is also intense commercial competition for shares in oil projects.

Like Western countries, international organizations such as the World Bank and the European Bank for Reconstruction and Development (EBRD) may play a greater role in future in the region’s oil and gas ventures. The world Bank has already initiated projects to help several Caspian countries develop their energy infrastructures and legal
frameworks. In early 1995, it granted Kazakhstan technical assistance loans of several million dollars to develop their management of oil resources.

Other organizations such as the European Union (EU) may also increase their participation in future. The EU already provides a large amount of humanitarian and technical assistance to the Caucasus and Central Asia. However it has so far not provided assistance in the oil and gas sector. It is examining proposals for a Greek, Russian and Bulgarian bypass pipelines to take oil from the Bulgarian Black Sea port of Burgas to the Greek Mediterranean port of Alexandroupolis. If the project goes ahead, it will increase the amount of oil that can be shipped through the Black Sea.

Role of India

India is situated in the close geographical proximity to the CAS but does not have common border with them. India has deep geo-Political and geo-strategic interests in the region. Historically, India and Central Asia have had close ties. The development in Central Asia have always tended to have a spill-over effect on India and vice-versa. Jammu and Kashmir is already feeling the burnt of militant Islamic fundamentalism in neighbouring Afghanistan. If the Central Asian region passes under the influence or control of hostile forces, it would indirectly influence India’s security concerns. The basic geo-political interests of India and the Central Asian Republics tend to converge in the region. India does not
even remotely figure in the perceptions of these republics or Russia. India is rather seen as a friendly and a helpful moderating and stabilizing factor. India also has an inherent interest in the emergence of Central Asian Republics as stable, strong and prosperous states who can hold their own and do not pass under outside influence. Both India and Central Asian Republics have a common interest in countering the growth of Islamic fundamentalist and other extremist forces in the region. Putting an end to international terrorism, and curbing arms smuggling and drug trafficking in the region are in the common interest of India and the Central Asian countries.

India is mainly relying on economic issues, in this geo-politically important region. Its place in the economic map of the region is very insignificant as compared to other countries that are trading with the region to have made investments there. Despite the oft-repeated statements of India’s crucial geo-political interests in the region. India’s diplomacy and economic activity in the region seem to lack vigour and necessary will. It is true that India have surplus capital to make huge investments in the region, still, there is great scope and unexplored possibilities for enhancing the resources of Central Asian Countries. India’s energy requirements are growing. The Central Asian states have huge oil and gas reserves that they want to export. India can seek access to them through the Iranian route, the Russian route through the port of Novorossisk or even the Afghanistan –

Pakistan route as and when it opens and becomes operational. The Central Asian states as well as the oil and gas multinationals who could make billions of dollars of investment in the construction of the oil and gas pipelines would like to extend them to the much larger and lucrative Indian market and not stop in Pakistan, India as well as the Central Asian states can gain from expanding their mutually beneficial economic cooperation and trade transactions. India can help these countries in their nation state building efforts, their economic transition to a free market economy and in the training of their cadre according to the current requirements of their economy and society at large.52

Deadlock over Caspian Legal Regime

Caspian Sea is a landlocked lake. Vast potential for oil has been found in the lake bed. Russia, Kazakhstan, Turkmenistan, Iran and Azerbaijan border the Caspian Sea. Since the maritime border of these states are not marked, it is an area of dispute. Before the break up of the Soviet Union, the legal status of the Caspian Sea was established under Soviet-Iranian treaties signed in 1921 and 1940.53

In 1992, and 1993, the Caspian littoral states met in Ashkabad and Tehran to discuss Caspian demarcation and other Caspian related issues such as regional development, environment, and fishing rights. On several

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52 Ibid.
occasions, all the states except Russia agreed to a plan, formulated by Kazakhstan and based on the old Soviet boundaries, to divide the Caspian into individual sectors bounded by equidistant lines from the shores of bordering states. Under such an agreement, few substantial resources would be in Russia’s sector. Russia announced their objection to any division of the Caspian Sea along state boundary lines.

The official position of the Russian Federation is that the Caspian Sea should be considered as a closed lake. By treating it as a lake, the rules and regulations laid down in the 1982 UN Convention on Maritime Laws shall not be applicable to the states bordering the Caspian Sea. Prior to the disintegration of the Soviet Union, the status of the Caspian Sea was determined by the treaties signed between these two in 1921 and 1940. 54

Moscow has at present two primary objectives in the Caspian region: first to convince all the littoral states to divide the Caspian seabed along a median line but at the same time keeping the surface water a common area; second it wants to ensure that the export pipelines continue to transit the Russian territory. 55 Under Vladimir Putin, Russia has tried to fulfill this goal. 56

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54 The Treaty of Friendship dates back to 1921 while the Treaty of Commerce and Navigation was signed in 1940.
56 Ibid.
Russian politicians and officials have issued public warning that opening up Caspian Sea to international oil and gas development over which Russia had no control would erode Moscow’s security and its political and economic influence, damaging Russian interests in the region.\textsuperscript{57} As more and more lucrative oil and gas deals with Western companies approached finalisation in the Caspian Sea, Russia took a stronger stance in particular by invoking the unresolved Caspian demarcation issue to oppose the Azerbaijani international consortium. In October 1994, Russia circulated a paper at the UN warning that Moscow reserved the right to take appropriate measures against Caspian states that unilaterally begin exploring the Caspian sea bed.

For their part, the ex-Soviet Caspian littoral states would like to resolve the legal regime soon, although they are not prepared to relinquish what they consider to be their rights. Many are concerned that Russia’s stance will scare away potential foreign investors needed to fund large oil and gas projects. These projects are crucial for the survival of local economies. Azerbaijan has taken the strongest stand among the littoral states against Russia’s efforts to establish a division of the Caspian, mainly because this would affect its immediate interests.\textsuperscript{58}

In October 1994, Turkmenistan publicly supported Azerbaijan’s right to develop its Caspian sector. Turkmenistan does not intend to

\textsuperscript{57} S. Bolukbasi, “The Controversy over the Caspian Sea Mineral Sources: Conflicting Perceptions, Clashing Interests”, \textit{Europe Asia Studies}, May 1988, p. 397.

\textsuperscript{58} Forsythe, Rosemarie, 1996, “Politics of Oil in the Caucasus and Central Asia”, \textit{Adelphi Paper} 3000, p. 29
develop its own Caspian resources in the near future, so the Turkmen position in this respect may vary over time. Kazakhstan, on the other hand, has been trying to find an accommodation with Moscow on the Caspian issue so that it can move forward with much-needed development projects. At the beginning of 1995, Kazakhstan claimed to have resolved the dispute with Russia. But in 1996 Russia still appears to be pressing its own view.\footnote{Menon Rajan, “Treacherous Terrain: The Political and Security Dimension of Energy Development in the Caspian Sea Zone”, \textit{NBR Analysis}, US, 1998, Vol. 9, No.1, p. 22.} 

In November 1994, the littoral states established a Caspian Coordinating Committee to work on demarcation and other related issues, including navigation and fishing rights. In February 1995, all the states except Azerbaijan agreed to 20 nautical mile coastal border for exclusive fishing rights. Azerbaijan did not want to sign the accord because it feared establishing legal groundwork for the condominium arrangement.\footnote{Ibid.}

**PIPELINE POLITICS**

Getting the Caspian oil out of the region and into the international market is a key issue that will ultimately affect the political and economic fate of the countries concerned.\footnote{Forsythe Rosemary, 1994, Politics of Oil in the Caucasus and Central Asia”, \textit{Adelphi Paper} (300); p. 44} The Central Asian countries are landlocked countries. As such they do not have the luxury of exporting their hydrocarbon resources from their domestic ports. The only option that they have is that they can send the oil and gas through pipelines that
will cross multiple international boundaries. The process of choosing and constructing the pipeline routes is a complicated process that requires delicate negotiations with many parties.\textsuperscript{62} 

The present pipeline that exists in the region is a relic of the Soviet era and therefore serves Russia better than other Central Asian countries. But this network does not correspond to the new economic and geopolitical dynamics of the region since the early 1990's. Under these circumstances, the pipeline diplomacy has increased. The vast reserves of oil is at the centre of this diplomacy. The region has an estimated reserves approximating 2000 billion barrels.\textsuperscript{63} The rich resources has given even the smaller and less powerful countries like Azerbaijan, a big bargaining power. It is estimated that the Azeri sector of the Caspian Sea alone has a hydrocarbon reserves worth 4 billion barrels.\textsuperscript{64} 

Innumerable investors, entrepreneurs and political players are attracted to this region because of the riches and power that is attached with oil and gas.

\textbf{CURRENT PIPELINE FLOWS}

Before dealing with pipeline politics, the existing pipelines of the region should be understood. The existing oil pipelines network was


\textsuperscript{64} Demirmen, F., "Prospects for the Baku - Ceyhan Caspian Oil," \textit{Oil and Gas Journal}, No. 97, 1999, p. 23.
designed by the former Soviet Union. It is composed for four major
sections: one is oil fields and passes through Kazakhstan and Uzbekistan,
terminating in Turkmenistan. Oil is shipped by pipeline via Shymket to
Uzbekistan’s eastern refineries at Fergana and Altay-Aryk. In addition a
pipeline from the Kumkol region in eastern Kazakhstan feeds locally
produced oil into the Pavlodar-Shymkent-Seili pipeline. The three major
oil export lines in Central Asia were designed to transport oil from the
major oil producing regions in Kazakhstan. Almost all the oil from Tengiz
aird Buzachi Peninsula is shipped north to Samara and currently moves to
Russian refineries. Oil from the Zhanazhol region is shipped north to
Russia (through Orsk). Another pipelines from this region runs around the
Caspian Sea to Grozny.

The gas pipeline network reflects the importance of natural gas
transportation in the region. Over 10,000 km of gas trunk pipelines have
been laid in order to transport gas from Uzbekistan, Turkmenistan, and
Kazakhstan to Russia and Europe. Furthermore, the capital cities of all
five Central Asian Republics are connected by gas pipelines. Currently
the Central Asian gas output primarily is concentrated in Turkmenistan,
which is a net gas exporter. It holds a dominant position among the

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65 Dorian, P. James, Ian Sheffield Rosi and S. Tony Indiryanto, 1994, “Central Asia Oil and
XXXV, No.7, p. 417
66 Ibid p. 418.
67 Campbell, C.J. The Coming Oil Crisis (Essex England :Multi Science Publishing,
southern former Soviet Union gas producers. Turkmenistan exported just 8.2 billion cubic meteres (BCM) of gas in 1993 to the west, as Russia began to impede the country’s exports in the process of wrangling over the proposed 1994 quota and tariff schedule. As a result of this development, Turkmenistan has been attempting to build a new export pipelines for its gas.

Present flows oil and gas in the Central Asian region follow the existing pipelines routes and reflect supply and demand patterns for oil and gas. In terms of volume, Russia dominates the flow of oil in both directions. Gas flows exhibits a similar pattern overall. Gas flows out form Uzbekistan and Turkmenistan.

Oil transportation within the former Soviet Union that is, "Intra-regional" trade, take place predominantly through the existing pipeline system. Approximately 85 percent of such intra-regional trade is via pipeline, 10 per cent by rail and the remaining 5 per cent is via barge.

In contrast, Central Asia’s oil exports outside the former Soviet Union are both by pipelines and sea. For example, for Kazakhstan’s total oil exports outside the former Soviet Union through Russia in 1993 was 45.3 million barrels out of which about two-thirds was via tanker (sea) and one-third was moved via pipeline. Crude oil exported by both Tajikistan

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69 Ibid.
and Kyrgyzstan is shipped by rail to Uzbekistan’s refinery at Ferghana. Turkmen oil exports are moving entirely by way of the Caspian Sea, as Turkmenistan’s only major pipeline is an important line delivering Russian crude. Iran too, receives about 11 million barrels of Azeri crude by way of barge transportation through the Caspian Sea. Both Turkmenistan and Azerbaijan are largely reliant on oil movements involving the Caspian Sea.

**Delivery of Oil and Gas**

We can analyse the geopolitics of oil in region by studying the intra-regional oil and gas flow. Oil products include automobile gasoline, diesel, and furnace fuel. The prime importer of Russian oil in Central Asia presently is Kazakhstan, but the trade between the two countries mostly constitutes an agreement by which Kazakhstan’s refineries will receive Russian oil. The other countries of the region are net major oil importers. They depend on the supply of Russian and Kazakh oil, particularly Kyrgyzstan and Tajikistan. Since these two nations do not maintain indigenous oil processing facilities, they must rely on imports of oil products.

**PIPELINE POLITICS: THE ISSUES INVOLVED**

Even before the collapse of the Soviet Union in December 1991, foreign oil companies had began to eye the Russian Federation as a prime investment target. With a huge resource base, well-educated population, and desperate need for capital, investor interest grew rapidly. Out dated oil
exploration and drilling equipment in Russia needed replacement and transportation improvements were considered vital. Unlike the Russian federation, the relatively unknown and poorly understood Central Asian republics generally were not targeted for investment immediately after independence (with the exception to Chevron’s developing interest in Kazakhstan’s Tengiz and Korolevsko Ye fields).70

Surprisingly, today investor interest in the former Soviet Union’s oil industry has reversed its direction. Since 1992, increasing interest has been targeted at oil exploration and development activities in Central Asia and specifically Kazakhstan, Turkmenistan and Uzbekistan. Azerbaijan, a Transcaucasian republic, also has been the object of substantial investor attention. This reversal has occurred for a number of reasons, including continued political and economic instability within the Russian government, a burdensome tax system in Russia, massive bureaucracy and growing corruption.71 These factors are legitimate grounds for western concern. The leaders of the Russian government have become disappointed with the slowdown of investment in their struggling oil industry, and therefore are even more determined to maintain control over the oil pipelines system.72

Russia is taking steps to reassert its authority over Central Asia.

72 Ibid. p.423.
Russian ambitions to exert influence on any new pipeline development within Central Asia was made clearly evident in September 1994, when Azerbaijan concluded an $8 billion agreement with Western oil companies. The deal, which paves the way for the development of three major Caspian Sea offshore oil fields (Azeri, Chirag, and Gyuneshli), could remove much of the control that Moscow has exerted adjoining republics by means of Soviet-built pipelines that traverse Russian territory to reach export markets. However, the western oil companies have been faced with Russian demands that the pipeline carrying oil to market from the landlocked Caspian Sea should cross its territory. Despite the U.S. pressure on the Yeltsin administration for a more accommodating attitude, Russia has continued to emphasize weeks after the accord was reached that it would not recognize the contract with Azerbaijan.

The Western companies involved, including Amoca Corporation, Pennzoil Cool, Uncoal Corporation, and British Petroleum, want to ship crude via a new pipeline across Turkey, bypassing Russia, while Moscow is insisting on a different route, namely one its own port at Novorossisk.

That would give Russia a majority of revenues and, importantly, physical control over the oil flow, while simultaneously reducing Azerbaijan's charges of earning hard currency from its lucrative oil resources. Transport of oil through Russia would involve a swapping arrangement.

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Similar pipelines worries earlier in 1994 prompted U.S. based Chevron Corporation to scale back its investments in Kazakhstan. Chevron reportedly had been considering the idea of shifting some of its planned Kazakhstan investments into the new Azerbaijan venture, which is closer to non-Russian outlets.\(^{74}\)

Two of the more prominent nations competing with Russia for economic influence in Central Asia are Turkey and Iran. Turkey has promoted itself as the answer to the needs of the Central Asian republics because it has successfully achieved economic transformation to a free market system, a project now just beginning in most Central Asian republics. Turkey perceives itself as the key link in the export of Central Asian oil and gas to Europe. Consequently, it has been active in promoting various pipeline plans, particularly those that extended through its territory.\(^{75}\) Turkey generally opposes any plan for oil to be shipped via the Black Sea, a route that would increase tanker traffic in the narrow Bosphorous Strait.

Turkish officials responded quickly and harshly to the Bulgaria Greece pipeline initiative because it would involve Russian interests. An official at BOT As the state-owned Turkish pipeline company, has claimed that the project would not be viable economically and if completed, would increase ship traffic in the Aegean Sea, where navigation could be


complicated because of congestion.⁷⁶ The official suggests that a more viable pipeline route for export would be one from Baku, Azerbaijan to Ceyhan, Turkey.

Similar to Turkey, Iran has been promoting its strategic importance as a regional leader. Iran supports its relationship with Central Asia by propagating an Islamic model for development. In doing so, Iran presents its northern region as an ideal market for Central Asian oil and gas. Iran is also seeking to reduce its dependence on the Persian Gulf as the only outlet for its oil exports by finding a new channel to Europe through the southern-tier former Soviet republics and Russia. Iran also constructed railway to Turkmenistan, at a cost of $200 million, and has explored the possibility of establishing free trade zones with Turkmenistan.⁷⁷

Discussions about building a crude oil pipeline from Turkmenistan to Tehran have been held, because the costs of constructing a similar pipelines from Iran’s own oilfield to the same refinery would be higher. Under this scenario, Iran would export similar volumes of crude from its terminals in the Persian Gulf to pay for the Turkmen crude imports.⁷⁸

In January 1994, the two nations concluded a 30 year agreement to construct a gas pipeline, with a capacity of 30 million cubic meters per

year, across northern Iran to transport Turkmen gas to Western Europe. This is by far one of the most important projects proposed between Iran and the republic of the former Soviet Union. Construction of the 1450-km pipeline would require a capital investment of $2.9 billion. Initially, the pipeline would transport 15 million cubic meters of gas and eventually 30 million cubic meters per day under the 30 year concession.

Another protocol has been signed between Iran and Kazakhstan to process Lengiz crude at the Tehran refinery as a temporary measure to reduce Kazakh dependence on Russia for its exports. The volume of the crude will initially be 2 metric million tons per year, increasing to 5 million tons at a later date. The agreement stipulates that Iranian crude of equivalent value will be exported on behalf of Kazakhstan from the Kharg Island terminal. There may also be the possibility of a swap arrangement between Azerbaijan and Iran, whereby nearly 80 thousand b/d of crude would go to Iran’s Tabriz refinery, and equivalent volumes of Iranian crude would be exported from the Gulf.

A surprising competitor for influence in Central Asia is China which is promoting a new “Silk Road’ to link the regions in the next century. Trade between China’s Xinjiang Uygur Autonomous Region and Central Asian republics has developed rapidly, and China has established 180 companies or joint ventures with Kazakhstan. China is looking ahead and

80 Michael, P., Croissant and Bulent Aras, Oil and Geopolitics in the Caspian Sea Region, (Westport, CT and London: Praeger 1999), p. 305.
intends to increase its trade with Central Asia.\textsuperscript{81} It has completed its Trans-ASIatic Railway. Because of China’s future economic growth potential, the Central Asian oil and gas producers will likely be attracted by China’s future energy demands.

The large quantity of recoverable resources coupled with the desire to expand economic relationships has driven negotiations for joint ventures in oil gas pipeline construction. Turkmenistan is represented in all the planned and proposed joint venture in gas pipeline construction. One of the largest joint ventures in planning states involves Turkmenistan,\textsuperscript{82} Turkey Iran and Russia. The four countries have agreed in principal to build a pipeline for Turkmenistan through Iran to Turkey. Construction was scheduled to begin in the summer of 1994 at a projected cost of more than $ 8 billion.\textsuperscript{83}

**POSSIBLE HYDROCARBON EXPORT ROUTES**

About 10 billion barrels of oil lies in the Central Asian states. Its exploitation depends upon providing outlet to these resources from the landlocked Central Asian states. Numerous plans for pipeline development has been proposed. It requires delicate negotiations with many parties.


\textsuperscript{82} “C.E.’s Turkmenistan’s Visit Starts Today: Talks to focus on gas pipeline project,” *Frontier Post*, Peshawar 15 May, 2000, p.1.

The Caspian Pipeline Consortium Route

The founding members of the Caspian Pipeline Consortium were Russia, Kazakhstan and Oman. It was formed in 1992 to build a pipeline to transport oil from the Caspian region to the Black Sea. The CPC’s original plan was to take advantage of existing infrastructure by finishing a 1,600 km pipeline that had been 60% complete during the Soviet period (but abandoned because of lack of financing). It would link both the Caucasian and Central Asian fields with expanded port facilities at Novorossiysk. The new Novorossiysk facilities would be designed to avoid some of the seasonal delays that force the present port to shut down for two months a year because of bad weather. The northern arm of the pipeline would extended from Tangiz around the northern curve of the Caspian and then continue straight across to Tikhoretsk and on to Novorossiysk. The southern arm would link up with a pipeline from Baku at the Russia – Azerbaijani border, passing through Grozny to Tikhoretsk.

Through Afghanistan to Pakistan

The least likely outlet would run from Turkmenistan through Afghanistan to Pakistan. This route will probably not be feasible until political, economic and commercial conditions are met. Those looking into this pipeline option hope that an Afghanistan–Pakistan pipeline could be connected to the lines coming from Azerbaijan and Kazakhstan. It would then provide outlet for a large volume of oil. The fall of the Taliban regime has once again generated interest in this project. Uncoal
Corporation and Saudi Arabia's Delta Oil Company signed an agreement with Turkmenistan in 1995. If successful, it could one day provide an export terminal at the Indian Ocean for Turkmen oil. Afghanistan to Pakistan pipeline plan is based on to high-demand energy market in South Asia, for both oil and gas. Although the project is only at the research state, Uncoal and Delta are making a small investment in the long-term future. Both companies recognize that financing the project will not be easy under present conditions. They are hoping that one day the proposal may materialize and they will reap the fruits of early investment.

Baku - Tbilisi - Ceyhan Project

This Baku-Ceyhan pipeline project is one that will transport Caspian oil to the foreign markets. This project is 1730 kms long that would start from Baku and end at Ceyhan. It would run for 468 kms through Azerbaijan, 225 kms through Georgia and 1037 kms through Turkey. This pipeline is expected to have a capacity of 45 million tones per year.

Although the plans of this project is several years old and all agreements have been concluded, its further remains a moot point. The major oil companies do not consider the project to be financially feasible.

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The cost estimates of this pipeline varies between US $2.4 billion and US $4 billion.\textsuperscript{85}

Under pressure from Washington, a Baku-Ceyhan sponsor group of eight companies has been formed. The engineering studies have just been completed. In April 2000, the three countries of Turkey, Azerbaijan and Georgia signed the final document for this project. The project, despite having the American support faces a number of problems. In the Transcaucasus, all the states have staked a claim to the passage of pipelines through their territories as possible transit routes.

**PROSPECTS AND PROMISES**

Russia: Alterations in the domestic political situation in Russia will affect the nature of tussle in the region over oil and gas. Different political leaders have different ideas on how to tackle to issue relating to oil. Russia’s immediate neighbours worry about Moscow’s more assertive policy towards the rest of the former Soviet Union.\textsuperscript{86} Nearly all the Caspian countries have expressed concern about the current Russian regimes’s push for further integration into the Commonwealth of Independent States (CIS), which many observers see as an attempt by Moscow to reassert Russian role in the region.\textsuperscript{87}

\textsuperscript{85} ‘Caspian Pipeline: two steps forward, onestep backwards”, *Global Oil Report*, p.8, May-June, 1999.


\textsuperscript{87} Novikov, Evgeni, 1995, *Central Asia Search for Security*, *Prism*, pp. 8-9
The domestic politics of Russia will continue to be pulled in several directions on the oil issues. Some Russian officials have expressed the view that Caspian countries owe Russia a debt for its role in developing the region's oil resources. They believe that Russia has a strategic right to control influence by having closer control over transit on the River Volga. Another group of Russian officials believe that Russia should not be assertive in the region. It may discourage foreign investment. Russia is not capable of developing oil in the Caspian because of its poor technology. 88

Iran: If Russia's behaviour towards the Central Asian countries become more aggressive, and the unrest in the Caucasus and Afghanistan persists there in this case Iran would become more attractive export route. Iran has offered a range of incentives for involvement of the oil companies in various oil projects.

For the US, the Russia-Iran dilemma is a conflict between the desire to contain Iran and to foster the independence and sovereignty of the Caspian states. Equally, the US does not support Iran because of its support for terrorism and its efforts to develop weapons of mass destruction. However if Russia maintained its hard territorial line, and the war in Nagorno-Karabakh continues than the Central Asian would send a oil out through Iran. Because doing so could have a negative impact on

their relations with the US. Thus the future prospect of sending oil through Iran is still not very rosy.

**China**: In the short term, China will probably not become as deeply involved as other countries in Caspian oil development and export. China’s oil import needs, may increase its interest in the region’s pipeline projects. China will continue to increase its trade and economic ties with Caspian countries, particularly those in Central Asia, and may become the primary trade partner for Kyrgyzstan and Kazakhstan. For their part, the Central Asian countries will base deeper involvement with China both on their own economic and political needs.\(^9\) Perhaps the most interesting Chinese-Caspian joint oil venture depends on whether the Tarim Basin holds significant reserves.

**Turkey**: Turkey is clearly an influential regional player in the Caspian. The evolution of events there will significantly affect the future of the region’s oil developments – particularly the route of a long-term oil pipeline. Much will now depend on how Turkey handles its complex domestic situation. Tensions between government and Kurdish separatists persists, and the government’s approach to the Kurdish issue will be a major factor in the long term pipeline decision, given the potential dangers posed by Kurdish terrorists. Kurdish terrorism has however, declined over the past two years, and the Turkish government has promised to secure a pipeline through its territory. As part of its support

for multiple export options in the Caspian region, the US for oil export from the Caucasus and Central Asia.

Afghanistan and Pakistan: Pakistan sees that through Afghanistan, it can provide access of oil and gas to its ports. Pakistan itself is troubled by endemic corruption, large budget and trade deficits, a flattering economy and political instability. Pakistan’s economic problems will make it difficult for the country to participate in financing large projects such as the pipeline from Turkmenistan, specially in the present situation when economic sanctions have been clamped on it for conducting nuclear tests.

Conclusion: A very large amount of untapped oil may exist in Central Asia’s vast fields, yet development prospects will remain dim until viable transport routes are established to bring the crude to lucrative markets in both Europe and the Middle East. The Western oil companies are eager to participate in the tremendous investment opportunities in Central Asia. Unfortunately, a combination of economic, political, cultural and historical factors currently are hindering most prospects for significant joint venture development. Turkey, Iran and China are seeking allies in Central Asia, on the one hand, whereas Russia is exerting increasing political influence on many discussions concerning new pipeline development from Kazakhstan and Azerbaijan. Importantly, those who control the oil routes out of Central Asia should be able to influence all
future flows (directions and quantities) as well as the distribution of revenues from new production.

The extent of new pipeline construction or renovation not only will affect the direction and volume of oil flows in and around Central Asia, but it also will influence levels of foreign investment in the region. Political obstacles continue to pose concerns to companies considering joint venture development in the region.