Geopolitics and Energy Security in the Caspian region

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Introduction

The geopolitical rivalry between Imperial Russia and British Empire in the 19th century around the Caucasus and Central Asian region was called “Great Game” where two empires were vying for influence and access to strategic resources of the region. The withdrawal of the British Empire from the region and succession of Tsarist Russia by Soviet Union in 1920s made Russians the sole power in this very important region of the world till 1990s. When the Soviet Union collapsed in 1991 and countries in the region got their independence the rivalry over the region again came under the focus of the leading powers of the world. This time the struggle over the strategically important resources (especially around the Caspian Basin) of the region was labeled the ‘New Great Game’ main actors being the newly independent states of the Caucasus and Central Asia (Azerbaijan, Georgia, Armenia, Kazakhstan, Turkmenistan and Uzbekistan), Russia, the United States, China, Iran and Turkey. EU and other countries like Japan, Israel, Pakistan and Saudi Arabia are also trying to get their share of this highly lucrative field around the Caspian Sea. International oil companies and consortiums are other important players in the region each representing interests of their own countries along with individual company interests. Their recent interest in the Caspian region came as a result of several developments in the worldwide energy industry and markets.

First of all, the decline of production in well-known oil fields of the Alaskan North Slope and the North Sea has pushed oil companies to the pursuit of new resources around the globe. Secondly, the recent opposition in some Middle Eastern oil exporting countries to multinational investments and the inaccessibility of some countries’ resources due to wars in the region, such as Iraq War, terrorist attacks on pipelines, unilateral or multinational economic sanctions (i.e., sanctions on Iran, Iran-Libya Sanctions Act) has placed pressure on the oil companies to rush for the Caspian’s underdeveloped resources. Thirdly, after getting independence, three Caspian countries, Azerbaijan, Kazakhstan and Turkmenistan, being in desperate need for financial resources have expressed their willingness to welcome multinational investments for developing their hydrocarbon resources.

Led by these ambitions international oil companies in the early 90s have negotiated and signed several agreements with especially Azerbaijan and Kazakhstan. Contracts signed for a $20 billion joint venture between Chevron and Kazakhstan to develop the oil rich Tengiz field with an estimated potential of 6 to 9 billion barrels of oil and also an $8 billion worth production sharing agreement (PSA) of the international consortium of AIOC (Azerbaijan International Operating Company) with Azerbaijan for the development of Azeri-Chirag-Guneshli (ACG) fields believed to have 3 to 6 billion barrels of oil.
Having attracted a considerable amount of international investments in the early 90s the Caspian Basin has proved to have the potential to supply the world energy markets with significant amount of non-OPEC oil and natural gas. However, the region’s potential has been undermined due to security challenges and some risks, which overshadow the future developments of the fields. Basically these challenges are 1) difficulty in accurately assessing the region’s hydrocarbon resources and capacity for the world energy security, 2) rivalries between regional and international powers, 3) multi-dimensional ethnic conflicts, and 4) disputes over the pipelines for the transportation of the resources to world markets. In this article the main focus will be on these challenges listed above.

I. Assessing the Caspian’s Real Potential

The billion dollar agreements concluded between international companies and Caspian littoral states imply that there are significant resources of natural gas and oil in the Caspian. However, different estimates about the actual potential of the Sea and some disappointing results from drillings in the wells in Azerbaijan and Kazakhstan have put the potential of the resources in the Caspian under suspicion at the end of 90s. Though some top officials in these countries have not hesitated to describe their fortunes as “another Middle East” or “another Kuwait”, the drillings of the wells for instance in 2001 at the Oguz field off Azerbaijan by ExxonMobile has turned out to be dry. It has resulted in suspension of the operations in this field. Similarly Chevron stopped its operations on the Absheron field off Baku because the natural gas reserve discovered there was considerably small.

Nevertheless, the international oil companies have not lost their interest in the region because of the results received above. On the contrary this has pushed them to assess the real potential of the oil and natural gas fields statistically and realistically so to prevent future losses in terms of financial means. However, there is great disparity between the statistical data estimated by different institutions on the energy potential of the littoral states. The table below illustrates this difference:
According to some analysts the differences above in the potential of the Caspian have been produced by Washington to increase the significance of the region. The motive behind this exaggeration about the oil and gas reserves has been explained as reducing the increasing energy dependency of the Western countries and United States on the Persian Gulf. Russian and Iranian officials as well have always tried to undermine the Caspian’s potential offshore newly independent republics. Simultaneously they have sought to challenge the general view shared by international energy agencies that there are not any significant oil and gas reserves in the Russian and Iranian part of the Caspian. After operations in 1999 conducted by the UK’s Lasmo and the Royal Dutch/Shell Group off Iran’s Caspian Sea coast 3 billion barrels of recoverable oil have been announced available out of 10 billion barrels of in-place crude oil. Similarly, Russia’s Lukoil has found 2 billion barrels of oil in the Russian offshore section of the Caspian. While these findings are small compared to other three littoral states’ reserves the real potential of the Russian and Iranian offshore sections is yet to be accurately assessed.

Despite some disappointing well drilling results in the Caspian there have also been new discoveries that later were regarded as one of the biggest discoveries not only in the Caspian but in the world. Especially the fields of Shah Deniz and Kashagan offshore Azerbaijan and Kazakhstan have attracted considerable attention. That is, in July 1999 BP Amoco, operating in the region, has announced that it discovered a large natural gas reserve at Shah Deniz believed to contain between 25 and 39 Tcf (trillion cubic feet) of natural gas. It was thought to be the world’s largest gas discovery since 1978. Immediately after the discovery international consortium consisted of companies from the United Kingdom, Norway, Russia, Iran, France, Turkey and Azerbaijan took on the exploration of the field. Later on Azerbaijan and Turkey agreed to
transport the field’s gas to Erzurum in Turkey in order to meet latter’s increasing energy demands. Currently 970 km long the BTE (Baku-Tbilisi-Erzurum) pipeline is under construction for transporting Shah Deniz gas to Turkish market and onward to EU countries.

Kashagan block in the offshore Kazakhstan gave another exciting result in the Caspian Sea after Offshore Kazakhstan International Oil Company (OKIOC) announced that it found 40 billion barrels of crude oil of which 9 billion was estimated recoverable. Like Shah Deniz this field as well was considered one of the greatest discoveries of energy in the world for the last several decades. So the Kashagan and Shah Deniz fields have created optimism about the Caspian’s real potential and have proved to be able to meet the world’s increasing energy demand.

As drilling and technological infrastructures develop in the region it is believed that costs of exploration and transportation will decrease accordingly, which in turn will pave the way for the Caspian’s resources to play significant role in world energy markets. A leading world oil consultant Wood Mackenzie suggested that the region has the potential to provide world markets with 3.8 million barrels of oil per day. This once again points to the fact that there are significant reserves in the region which makes it comparable to North Sea if not to the Middle East. However, in order to realize this target and fully utilize the region’s hydrocarbon resources the security concerns and geopolitical differences between regional and international powers needs to be addressed and resolved.

II. Geopolitical Rivalry and Russian Interests

As it is still being observed, the Soviet collapse has left a power vacuum in Central Asia and Caucasus. Determined to fill this vacuum the world’s leading nations have shown their interest in the region after the Cold war era either in a direct way or indirectly through international organizations or alliances. Therefore, the region has witnessed the formation of different regional and international organizations aiming at providing regional and economic security. Commonwealth of Independent States (CIS), Partnership for Peace Program of NATO, Black Sea Economic Cooperation Pact, the Shanghai Cooperation Organization, GUAM Group (Georgia, Ukraine, Azerbaijan and Moldova), unofficial Russia-Armenia-Iran Axis and US-Turkey-Azerbaijan Axis, and the Economic Cooperation Organization (ECO) were the first organizations to be established in the region. Having their particular interests and motives these organizations sometimes had the same departing points but different strategies to achieve the dominance in the region’s politics. For instance, Russian backed organizations have tried to maintain the Kremlin control in the region and keep
newly independent countries under the Russian sphere of influence. Western backed organizations sought to enhance the sovereignty of newly independent countries and support the process of democracy and integration of the region to world markets. Hence fierce competition and rivalry has been observed after the Soviet collapse in the region. The stakes here are considerably high like nowhere in the world for the last decade.

There are many reasons for the Russian Federation to maintain its hegemony over the Caspian region. First of all, Russia is very much dependent on raw materials from the region due to the Soviet era economic structures, which created economic interdependence. Cotton, natural gas and petroleum are several of them. Another factor pushing Russia to watch for the developments in this region is the Russian population still living in the states of the region whose number is believed to be around 10 million. Since the collapse of Soviet Union there has been continuous pressure from opposition parties on the Russian state to monitor conditions of this population. Also there are security concerns that draw Russian government to the region. Because it still does not have fully safe and protected borders with the newly independent states. That means any destabilizing factor in the region can easily destabilize the Russian Federation itself as in the case of Chechnya in the Caucasus, where Russia has large Muslim population and other ethnic groups.

In the aftermath of the Soviet collapse, there have been considerable fluctuations both in theory and practice in Russian foreign policy. The Russian Foreign Ministry has been criticized for lacking a well-defined foreign policy concept in these years. The determination of foreign policy has been subject to the internal power struggle in Kremlin. The foreign policymaking institutions have had different approaches on the policy options regarding the Russia’s “near abroad”. Therefore multiple foreign policies and a concentration on different issues have been observed in the volatile Yeltsin administration period.

Nevertheless, after the fall of the USSR two broad trends, or two perspectives were observed which were Euro-Atlanticist and Eurasianist. Primarily Yeltsin administration Foreign Minister Andrei Kozyrev and some of his younger advisers in the foreign ministry masterminded the first. Their driving claim was that Russia should approach the West and adopt its principles and institutions in the way to liberalization and integration to the world system. Supporters of this wing were backed in the cabinet by powerful personalities such as Yegor Gaydar, and they have also enjoyed the overall support of Boris Yeltsin. The second, Eurasianist perspective, also called new Eurasianism or Neo-Eurasiansim, has dominated Russian foreign policy when relations with the West proved to be going difficult in the late 1992. Eurasianist approach in the foreign policy had been supported by influential interest groups within Kremlin circles, such
as the army generals, military-industrial complex, and, individuals such as Russia’s Security Council secretary Yuri Skokov, Russian Defense Minister General Pavel Grachev, Speaker of the Parliament Ruslan Khasbulatov, and Commander of the CIS Joint Armed Forces General Shaposhnikov, and also the powerful centrist political forces gathered under the umbrella of the “Civic Union”. This influential group has been advocating that Russia’s revival lies in its tight relationship with its traditional client states in the Caucasus and Central Asia. President Yeltsin had also moved close to this perspective after his administration faced difficult foreign policy issues in the West, issues like NATO’s enlargement towards Russian borders and its implications for Russia.

Actually in the immediate aftermath of the Soviet collapse, the Russian leadership was very much preoccupied with the need to establish good relations with the United States and EU. Trying to consolidate Russia’s position as the primary successor state of the former Soviet Union the Russian officials did not pay much attention to relations with the newly independent countries of the former Soviet Union. The primary concern in the Kremlin circles during this period was the attempt and necessity to create a favorable international environment for the country’s economic revival. As a result of this passivity in the Caucasus and Central Asia, Moscow unintentionally had created a geopolitical vacuum in the region which paved the way for the intervention in to the region of neighboring states like Iran, Pakistan, and Turkey. A strategically vital area, which was closed for the last two centuries to these Muslim neighboring countries, was now open and they could fill the power vacuum left by USSR.

Also, in the post-Soviet era relations between the Central Asian states and Russia have never followed a stable course. They have approached each other with deep and mutual distrust. The roots for this can be traced back to the aftermath of Soviet collapse when presidents of Russia, Ukraine, and Belarus came together in Minsk for in December 1991 to dissolve the Soviet Union with the Minsk agreement. Such an isolation of “brother Slavs” has generated the sense of resentment among the other pro-Russian leaders of newly independent states. Such developments have pushed Central Asian and Caucasian leaders to look for other external powers to cooperate with in the field of economic development of their countries. For instance, Iran and Turkey were generously offering their assistance in all fields for the newly independent countries.

It was later when the Kremlin really started setting its foreign policy objectives in the direction of uniting Russia’s economic future with the Caucasus and Central Asia. There were serious concerns that regional powers, such as Turkey and Iran, or even the US, might exploit the new geostrategic situation to exert their influence into Central Asia. Russian political circles perceived Turkish activity in the region as US
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policy towards the region backed by NATO institutions. The Black Sea Economic Cooperation Zone and other new regional organizations created by Turkish leaders were seen as an attempt to draw Azerbaijan, Uzbekistan, Turkmenistan, Kyrgyzstan, and Kazakhstan into a Turkish sphere of influence because of these republics’ cultural and linguistic ties to Turkey. According to some radical politicians in Russia it was a new form of pan-Turkism with which the Russian Empire has long dealt with during the Ottoman Empire era. Such perceptions and emergence of new regional economic associations have then compelled Moscow to monitor the situation in the region very carefully. Moscow always had and still has the determination to prevent the US or any third party (such as Turkey) from intervening in this region.

In the early days of post-Soviet era the Kremlin also held the fear of widespread Islamic radicalism penetrating from Central Asia into Russia from the south where Russia has Muslim population of 20 million. This has been among Russia’s most serious concerns, which made the Russian government to take practical measures such as increasing the security on its southern borders. It has always been reported that there were large number of terrorists entering Chechnya from the borders with Caucasian and Central Asian republics. The international community has supported Russia’s concerns after 9/11. One more measure that Russia took in this direction under the Vladimir Putin administration was its application for membership in the Organization of the Islamic Conference (OIC). In the OIC summit in Malaysia in 2003 Russia participated as a guest hoping to become an observer for coming years. Putin has given an explanation about for this act as “Russia’s 20 million Moslems have the right to feel they are part of the Moslem world”. By this move Russia hopes to get the support of Muslim world and decrease the assistance of some Muslim countries to rebels in Chechnya. So in order to contain the external threat to the stability in its southern regions the protection of exterior borders of Russia and CIS, as well, has come out as one of the important issues for Kremlin.

Russian interests towards this region can also be explained by one of the decrees, which was signed on April 24th, 1992, by the Yeltsin administration. It was signed with the aim to revitalize the old dependency among the CIS republics and to promote coordination in all the fields. The priorities in the decree were: (1) ensuring human rights, including the rights of ethnic national minorities, (2) achievement of stability and safety, (g) equal rights of all states, (4) obligatory fulfillment of agreements by all states, and (5) strengthening security or Russia’s borders. With this decree the main Russian foreign policy objectives in the region, including the Caspian Sea basin, were once more emphasized officially.

Geo-strategically in the Caspian the Russian Federation needs to stay influential and to become
the sole power in order to exert full control over the Commonwealth of Independent States (CIS). It wants to ensure its strong role in the area and to wield power within the CIS and to control over its southern flank. Especially, the neighboring countries as Armenia and Georgia are very important in this context. Russia fears that instability and rebel movements in Chechnya can spill over into the neighboring Russian Muslim populated republic of Dagestan where Russia borders the Caspian Sea. Several attempts by Chechen rebels to generate an anti-Russian movement in Dagestan have proven Russian concerns to be serious.

Geo-politically Moscow views the post Soviet space as number one important region upon which the future and might of Russian statehood depends. The victory or defeat over the domination of the Caspian resources after all will determine the future of Russian influence on the Eurasian “chessboard”. It has been commented that growing problems in the North Caucasus among the autonomous Russian republics besides Chechnya such as Kabardino-Balkaria, Ingushetia, Karachay-Cherkessia, North Ossetia and increasing Wahhabi influence here makes this region more important to Russia than any other region within CIS.

Economically, being in desperate need for the cash flow into its economy Russia wants to guarantee the future economic gains from Caspian oil and gas fields. In this aspect there is competition between Russian and Azeri, Kazakh and Turkmen governments to attract multinational companies to their countries. Moscow also desires to be the sole power in controlling the Caspian Sea surface in order to have the biggest share of agricultural resources such as vast fishing region here.

Moscow has also ecological concerns in the Caspian basin. Russian experts want to develop safe ecological norms in the Caspian so that to prevent future ecological problems which can endanger the fishing resources. This Caspian basin produces 80-90 percent of the world's finest caviar which makes Russian authorities to promote measures to protect the sturgeon stock here. The severe meteorological conditions such as strong typhoons observed in Russian section of the Caspian also add concerns to regulate the ecological situation on the surface.

Under the Putin administration Russian interests have continued to be driven by economic priorities regarding the Caspian. Since Putin took the office in 2000, the Caspian was included into priority issues on the agenda and all the methods have been tried in order to optimize Russian interests here. Shortly after his presidency Putin conducted official visits to Azerbaijan and Kazakhstan, and concluded contracts in the field of future economic cooperation, which have demonstrated Moscow’s determination in its Caspian politics. It was obvious that Putin in a different way from Yeltsin has started a new trend in Russia’s Caspian policy, which was very often characterized by analysts as more coherent and aggressive.
latest developments around the Caspian basin the Putin administration has pushed the industrial sector to get more involved in the region and cooperate with foreign investors for the total development of the fields. That is, US expansion in the area started to be viewed as unavoidable and therefore a constructive engagement policy has been chosen in relationship with outside players.

In this context the Russian energy giants as Lukoil, Yukos and Gazprom have come together to form a Caspian Oil Company in 2000 to further develop country’s economic interests in the region. Additionally, in January 2002, there was the creation of a “Eurasian alliance of Gas producers” consisting of Russia and the three big gas producing countries of Central Asia (Kazakhstan, Turkmenistan and Uzbekistan), and in January 2004 a proposal about OPEC-2 consisting of Russia and the three oil producing countries of the Caspian (Azerbaijan, Kazakhstan and Turkmenistan) was brought onto the agenda. Such organizations can assist Russia to keep the economic developments in the region under control. They will also assure that Russia will remain an influential power and will assure future economic ties with Caspian states in a time when US has started to establish a military presence in the region after the war in Afghanistan.

The conclusion is that Russia will remain a great but “normal power” here. The seat in UN Security Council and possession of nuclear power gives Russia superior status among the Caspian littoral states and other regional players. Due to its historical ties Russia comparatively has more economic and strategic levers than any other Western country in this region. Using its military and intelligence means Moscow can anytime obstruct or challenge developments including the proposed pipeline projects in the Caspian region. Kremlin’s recent policies regarding the region are heavily driven by pragmatic and commercial principles under Putin as well as strategic interests. That is, Russia has already started to cooperate with its traditional enemy, Turkey and also US in the energy sector. The Blue Stream project that supplies Turkey with natural gas from Russian federation is a good example of this cooperation. Furthermore, Russian industrial complex with all of its institutions is closely involved almost in every contract regarding the development of the Caspian fields with American and other oil companies. However it will never make Russia to be a sole power in the Caspian like the Soviet Union time.

III. The United States and Its Oil Over-Dependency

The Soviet collapse has given the United States an opportunity to improve its commercial interests and energy security by accessing Caspian reserves. These reserves presented Washington with a
means to lessen its over-dependency on the volatile Middle East region where the US gets the most of its energy needs from. In the last years oil prices have grown drastically and as a result, the United States spent more than $18 million per hour on foreign oil. Simultaneously, OPEC’s oil export revenues have grown by 42 percent to $338 billion. According to the US Energy Information Administration (EIA) throughout the next coming years oil prices will continue to stay high and OPEC will rake $345 billion in revenue per year. There are considerable American concerns that this transfer of wealth is undermining national security and thus energy security of the country. In addition most major oil producing countries are either politically unstable or at odds with the U.S which imports quarter of its energy needs from Middle East. The White House strives that the petrodollars, which U.S provides to OPEC nations, do not contribute materially to the terrorist threats eventually. American over-dependency on OPEC oil creates vulnerabilities and terrorists are aware that oil is the main pillar of the world economy and disrupting the world's oil supply could defeat the U.S. and its allies in the region. In Iraq and Saudi Arabia, the terrorists have demonstrated that they can advance their strategic objective by attacking critical oil infrastructures. Since the war began in 2003 there have been more than 200 attacks against pipelines and oil installations.

In the longer run America’s energy security can also be negatively affected by China’s growing demand for oil. The oil consumption in China is increasing seven times faster than that of the U.S. and its imports have grown by over 35% per year since 2003. These figures clearly indicate that China’s demand for oil will continue to grow in the years to come. The International Energy Agency forecasts point out that by 2030 Chinese oil imports will be more than the present U.S. oil imports today. Drastic Chinese economic growth has already been felt on the global energy scene and has been a major contributor to spikes in world oil market prices. Economic growth and demand for oil like in the U.S. has pushed Chinese authorities to look for energy resources in its neighborhood such as the Caspian basin.

Willing to reduce their economic dependency on Russia the newly independent states of the Caspian basin have called international as well as US government and companies to take an active role in developing their energy resources. Official visits to US by the leaders of the Caspian littoral states were the first indications of significant US interests in the region.

Being the world’s largest energy consumer and importer the United States starting with the Clinton administration in early 1990s took keen interest in the region. First of all, Washington’s interest in this part of the world was in the large energy reserves in the region. It meant US diversification and an increase of future energy supplies for the American economy. Secondly, the US aimed to support the process of
democratization and nation building within the littoral states to decrease their dependency on Moscow to minimum. In other words, American foreign policy in this context was instructed to solve ethnic conflicts and provide security in the highly volatile region. Thirdly, the United States was determined to transport energy resources from the region to world markets through such routes where Moscow does not have full influence. Since the most of the Caspian oil reaching world markets passes in pipelines through Russian soil Washington has advocated more transportation routes bypassing Russia. Along with the decision to reduce Russian influence over the hydrocarbon resources Washington has not necessarily viewed Russia as a competitor in the Caspian Sea basin but also it did corporate in developing oil and gas fields together. Fourthly, the US continued to follow its sanctions policy against Iran also in the Caspian basin area. Iran - the member of the axis of evil - has faced serious US obstacles in assuming a significant role around the Caspian basin. Washington’s concern in this issue is that the security of the energy transportation will be under threat if pipeline routes are constructed via Iran. In fact Iran offers the cheapest route for the transportation of the Caspian oil to international markets. Although since 1997 there were some moderate changes in Iranian political structure with the election of reformists, still the religious leadership keeps the control tight in this country and continues to view US as an enemy. However, the US official opposition to the Iranian route faces some important challenges within the country. That is, US oil companies, which are interested in investing the pipeline projects, have been insisting that Iran provides the easiest, fastest and cheapest route for the transportation of the Caspian resources. Also there is a belief within Washington political circles that rapprochement with Tehran can decrease this country’s close relationship with Russia. However, this policy could have other disadvantage for the US in that by choosing Iran as a main route it would undermine Turkey’s role in the region. Because initially, this NATO ally of the United States was given the priority in taking the leading role in the Caspian region using her cultural and historical ties with the countries there.

It is also a fact that the terrorist attacks on American soil and US war on terrorism in Central Asia have changed political priorities all over the world as well as in the Caucasus and Central Asia. The removal of the Taliban regime in Afghanistan and the establishment US military bases in Central Asia in a sense has made Washington a significant player in this region. As an outcome of the war in Afghanistan the US could establish military ties with the energy rich countries here and has for the first time physically entered ex-Soviet space. In this way Washington could guarantee the future security issues with the countries like Azerbaijan and Georgia in the Caucasus and Uzbekistan, Kyrgyzstan, Tajikistan and Kazakhstan in Central Asia. The American military existence in the region is likely to continue at least for a decade since the
situation in Afghanistan has not been fully taken under control. The military bases in this region also give the United States an opportunity to be near to three internationally competitor countries like China, Russia and Iran. Though the officials in China, Iran and Russia have expressed their concerns about the American military presence here they did not have much option to avoid such situation. In the following years Russian president Vladimir Putin has shown quite pragmatic openness and patience towards US presence in Central Asia. He has demonstrated his pragmatic approach and stressed the opportunity for cooperation but not competition in the opening ceremony of Russian air base in Kyrgyz Republic in 2003 just 30 km away from American base there.

Afghanistan’s role once more emerged in the world arena as a transport country for the Caspian oil when the unstable Taliban regime was removed. In fact with its geographical location Afghanistan offers a good opportunity for the international oil companies to consider this route as a potential for the transportation of the energy resources to the Arabian Sea. Actually in 1998 the US oil company Unocal Corporation had already come to terms with the Taliban regime and the governments of Turkmenistan and Pakistan for the transportation of Turkmen oil and gas to Arabian Sea. But the plans for this route were shelved when American embassies were bombed in Tanzania and Kenya after which the US bombed Al-Qaeda camps in Afghanistan. After this Unocal and other oil consortia considering the same route have disregarded such proposals at least till the Taliban was in power in Afghanistan. This regime has been removed and does not challenge the transportation routes, the hopes for the previous plans have resurfaced once again. Caspian resources can also reach world markets by this route in the future once the sense of stability is observed in Afghanistan.

IV. Traditional Powers: Turkey and Iran

Early Turkish engagement in the Caspian region came as a result of Turkey’s cultural ties and commercial interests in the region. There was a significant Turkic and Persian cultural influence the Caucasus and Central Asia before Russian domination in XIX century. Though Tsarist and Soviet rule has separated the region from Iranian and Turkish influence the regional countries still retain the cultural legacy of those traditional powers. Seeking to reactivate historical ties with the region Turkey was the first to grant diplomatic recognition to Caspian countries and immediately opened embassies in the region. Following this the Turkish business developed a strong interest in the Caspian countries as a result of which Turkey became one of the biggest export and import partners of those countries. All these developments have demonstrated
strong Turkish interests in the Caspian countries. Turkey has also expressed its willingness to take a leading role in developing the region’s energy resources. Since the Turkish economy heavily depends on energy imports the Caspian region has been viewed as a great opportunity given its geographical proximity. Furthermore, Turkey’s energy consumption is growing much faster than its production. This makes it search for alternative energy sources for its economy. The country gets 87 percent of its total energy demand from oil and gas resources. 82 percent of the consumed oil and all the gas with 72 percent from Russia is being imported into the country. With its growing energy dependency Turkey needs to find secure and uninterrupted flows of alternative energy resources into its economy. In this line, all the Turkish governments since the collapse of Soviet Union have remained committed to close relationships with the Caspian states.

Therefore Turkey insistently supports the Caspian-Mediterranean pipeline route for the transportation of oil and gas from the region which will increase Turkey’s geopolitical importance on the world arena. Turkey is trying to promote itself as an “energy bridge” in the region thereby, to ensure its future role in influencing the policies regarding the Caspian region. The country’s importance will considerably increase once the energy resources are transported over its soil to European markets. The government and business elite have united all efforts in this direction with US support since early 90s.

Like Turkey, Iran also has viewed the Caspian region as presenting new opportunities for the Iranian economy in the aftermath of Soviet Union. However, this country had serious security concerns regarding the regions such as spread of nationalism and secessionist movements inside Iran. Having significant Azeri, Turkmen and other ethnic populations Iran has tried to avoid interstate conflicts and clashes with the newly independent countries. Particularly, Iran has been very sensitive to the external intervention into its ethnic minorities and the government has tried to prevent the exploitation of this issue. In this regard Iranian officials have several times criticized western intervention in the regional issues of the Caspian countries and also Azerbaijan and Kazakhstan’s tight relationship with undesired external powers such as Israel and United States.

On the other hand, promoting its geographical location between the Caspian states and Persian Gulf, and also its relatively developed internal transport infrastructure the Iranian government has offered its soil for the cheapest and fastest transportation routes to world markets. Since the Caspian countries need quick money for their economies the leaders in these countries have expressed their willingness to use Iran as transportation country. It has improved the Iranian position in the Caspian despite all the sanctions and as a result Iran was able to establish a good relationship with Central Asian countries also using her cultural ties.
Iran has also tried to broaden her sphere of influence using historical ties in the relationship with newly independent Caspian countries. With this aim in the early 90s, Tehran has opened its embassies in the newly independent countries and initiated several regional organizations with the littoral states. For instance the expansion of the Economic Cooperation Organization in 1992 to include Azerbaijan, Kazakhstan, and Turkmenistan (as well as Afghanistan, Kyrgyzstan, Tajikistan and Uzbekistan) was one of such attempts to unite all these republics under the same umbrella.

First of all, Iran has chosen pragmatic policies in its relationship rather than exporting religious ideas to them. It has not used religion in dealing with region countries rather economic interests have been driving Iranian aspirations in these relationships. For instance, Iran has supported Christian Armenia rather than predominantly Shia Azerbaijan during the secessionist movements in the Nagorno-Karabakh region of Azerbaijan. This was the result of strained relationship in early 90s between Azerbaijan and Iran because of the considerable Azeri minority population in the north of Iran. Generally Tehran maintains better relations with Armenia and cooperates more with this country than predominantly Shia Azerbaijan. Though Azerbaijan is the second largest Shia Muslim populated country in the world after Iran it has not reflected in the relationship between them. Similarly, it has pursued strategical relations with Russia and has not supported Chechen rebels as other Muslim countries. With these policies Iran has proved and made the world to believe that not religion but state interest and commercial priorities guide Iranian policy in the region.

Like other regional powers Iran has also tried to take a leading role in developing the region’s hydrocarbon resources. Iran has initiated intergovernmental visits, bilateral agreements and multilateral forums in the attempt to improve its position in the region. Despite the estimates that there are few resources, if any on Iranian sector of the Caspian Basin, Tehran in 1998 formed a consortium with Royal Dutch/Shell and Lasmo to develop the oil and gas fields there. Another significant Iranian economic initiative has been its oil swap agreements with Azerbaijan, Turkmenistan and Kazakhstan. Though little, some part of the oil from these countries reach markets through oil swap operations with Iran.

However, the increasing tendency towards militarization among the littoral states has made Tehran uncomfortable in recent years. The presence of authoritarian governments, ethnic conflict and also significant oil revenues has increased the possibilities for future conflicts in the region. Iranian officials have expressed their concerns especially when in the early 2000s Azerbaijan bought some patrol boats from the United States, as did Turkmenistan from Ukraine. Turkmenistan also negotiated an arms deal with Russia. The fact that Russia enjoys the strongest military power on the Caspian and sells weaponry to other littoral
states is against the Iranian interests since Iran was advocating the de-militarization of the Sea since early 90s. However, despite Tehran’s opposition Russian military presence in the Caspian Sea it cooperates with Moscow tightly to prevent American penetration into the neighborhood. Recently Moscow and Tehran have been cooperating to prevent Western, specifically US hegemony over the basin.

V. Chinese Interests in the Caspian

China’s entrance into the competition for influence in Central Asia in the early 1990s was not purely to gain access to region’s rich hydrocarbon resources. Its earlier interests and concerns were anti-terrorism, determining and protecting its borders with the region’s newly independent countries, controlling ethnic problems in Xinjiang province which is largely populated by Muslim Uighurs and preventing any external, military influence over the minorities there. With this aim and also to prevent further Western, particularly US, intervention in the neighboring regions China has promoted the Shanghai Cooperation Organization with Russia and Central Asian republics of Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan. China started to look for energy resources abroad when in 1993 it became evident that in order to sustain its economy and energy security China has to rely on imports from external energy suppliers. That time China already was importing a significant amount of hydrocarbon resources from the Middle East but the problematic characteristics of the region have pushed the Chinese to seek diversified energy supply channels. Proximity gives Central Asia and Caucasus an important significance for China, which draws China into competition with US, Russia and other energy importer countries.

The US Energy Information Administration reported that projected energy demand in Asia would increase by 129 percent by 2020. The biggest share of these projected demands would be China’s. Other developing Asian countries as well will have their role in this fierce competition. Nowadays, possessing enhanced economic and technological capacity the rising East Asian economies can challenge US and other leading nations of the world in exploration and developing energy fields of the world.

China’s demand for oil and natural gas increases as its economy continues to grow rapidly. It is estimated that China’s oil demand will be growing at an average rate of 3.8 percent during the period of 1996-2020 which means an increase in domestic consumption by 3.5 million barrels per day (mb/d) to 8.8 mb/d. Its own resources are projected to meet the domestic demand only for a 20-year period. In line with increasing oil demands, natural gas consumption is also growing rapidly. It is estimated that by 2020 the country’s natural gas demand will increase by 11 percent from its current 2 percent level. Also, according to a
RAND report by 2020 China will have to import 60 percent of its oil and 30 percent of its natural gas needs. The statistics put China under pressure to seek for external resources of hydrocarbon resources. The country became net importer of energy in 1993 for the first time in its history. Presently China is the second largest consumer of energy resources after the United States. Therefore, Chinese policy makers have to find new oil resources in order to prevent interruption of the country’s future economic development and assure the energy security. Though late, China has already contacted the Caspian basin states for energy resources. In late 1990s China agreed to invest $800 million in Kazakh oil fields of Aktyubinsk and Uzen believed to contain 2.5 billion barrels of oil reserves. In the coming decade, there are also plans to transport Kazakh and Chinese oil to Far East with the cooperation of Korea and Japan from the Tarim basin by pipeline. Also recently Chinese service companies have become very active in Azerbaijan and Turkmenistan. There is a Chinese planned route to transport Turkmen gas through shipment via Iran to China.

Nowadays, China increasingly relies on energy resources from Central Asia and tries to formulate its foreign policy goals with this in mind. However, it does not feel comfortable having US bases next door in Central Asia. US bases have been established in the Khanabad region of Uzbekistan, though later moved away, and Manas airport of Kyrgyzstan in the aftermath of 9/11 attacks on the US soil and the US war on terrorism in Afghanistan. Chinese officials have several times expressed their concerns over the long-term presence of American military presence on China’s doorstep. Historically China has never liked having US bases in its neighborhood and has always tried to prevent this unpleasant situation as in the case of Vietnam and Korean Wars. Also Western involvement in the region through multilateral institutions such as NATO’s Partnership for Peace Program increases Chinese and Russian concerns about future security policies. Such a situation does not imply a very safe and secure Central Asia for coming decades. Any misperceptions either by Chinese or Americans or even Russians about each other’s intentions can easily endanger future plans for extracting and transporting energy resources from the landlocked Caspian region. While the United States is trying to make allies in the region China meanwhile prefers to approach the issue very carefully by preventing any conflicts. It seems that, at least for the near future Chinese will pursue this policy also because of the need to prevent any disagreements with another important player in the region, Russia. In order to ensure an uninterrupted flow of hydrocarbon resources into its developing economy Chinese policymakers have not employed any aggressive measures in the region so far. Rather China has fully supported the US anti-terrorist war and both China and US are eager to cooperate over energy polices in Central Asia. However, in the long-term US-Chinese cooperation in Central Asia will be much dependent on their interaction in other
VI. Security Threats and Ethnic Conflicts

Central Asia and the Caucasus region have been remarkable with their deep-rooted ethnic divisions that can be traced to very early ages. This is especially the case with the Caucasian region which used to be called a “second Balkans” where different religious and cultural entities live together. There have been various clashes and conflicts within and among the ethnic minorities here throughout the history. Although the authoritarian Soviet government ended the hostilities, after the Soviet collapse the differences resurfaced once again. Thus, since the early 1990s hostility within and between several Central Asian and Transcaucasian ethnic groups has resumed. As ethnic groups here have different cultural backgrounds the recent ethnic problems have been related to territorial integrity and the right to national self-determination of the nations. The conflicts have erupted from time to time leading to bloodshed in the region. These conflicts overshadowed the future oil and gas exploration plans of the international oil companies operating in the region. Such a fragile situation here has also put under doubt the credibility of some proposed transportation routes.

Supposed to be main export pipeline for the transportation of the Azeri and Kazakh oil the credibility of Baku-Ceyhan project was for long time under suspicion because of the terrorist attacks. The presence of Kurdish terrorist groups under PKK organization in the Turkish territory was posing such a threat for the pipeline.44 Also for the part of the pipeline passing through Georgia there have been and are threats by Armenian terrorist group ASALA (Armenian Secret Army for the Liberation of Armenia) and Al-Qaeda related Wahhabi terrorist groups based in Georgia’s Pankisi Gorge, secessionist movements in Adjaria, Abkhazia and South Ossetia. The motive behind the terrorist attacks by ASALA has been thought to be to protest against isolating Armenia from economical gains in the region and also strengthening the Turkish and Azeri positions with whom the former has been at odds. Wahhabi groups in the Pankisi Gorge have been reported to challenge the pipelines since they will serve the US interests in the region. These concerns on the part of regional countries and international oil companies have increased after the Baku-Supsa oil pipeline, another route to take Caspian oil to international markets, was bombed several times.45

The Russian war in Chechnya has also had negative impact on oil developments in the Caspian region. The original northern route for oil from Azerbaijan passed through the Russian republic of Chechnya en route to the Black Sea port of Novorossiisk. After the war in Chechnya the route for the pipeline was
changed and shifted to Dagestani territory, another Russian republic on the north of Azerbaijan. However the spillover of fighting between Russian troops and Chechen rebels into Dagestan has undermined from time to time the credibility of this route as well.46

All the proposed Western route pipelines pass through Georgia. Presently there is a pipeline taking Azeri oil from Baku to the Georgian port of Supsa on the Black Sea and BTC, main export pipeline of the Caspian resources since 2005. However these pipelines and several other proposed Western routes pass near the conflict points in Georgia and Azerbaijan. Abkhazia on the northwest of Georgia and Ossetia on the north-central Georgia are very near to the pipeline routes. For a long time oppositional government to official Tbilisi in Adjarian region of Georgia has also been a serious concern for western businessmen but concerns removed away with the consolidation of the administration there in 2004.47 These regions within Georgia have been scenes for bloody conflicts between Georgian forces and separatist movements. In all cases having significant Russian military support behind them separatists in Abkhazia and Ossetia have defeated Georgian forces forcing Tbilisi to appeal to Russia to halt the conflicts.48 Conflicts have been ended but not resolved which means a “no peace no war” situation in the region giving Moscow an upper hand in balancing the security regime here.

The situation between Tehran and Baku is another potential threat to the delicate ethnic make-up in the Caspian region. There is a growing concern within Tehran that the state of Azerbaijan can provoke Iran’s Azeri population leading to serious political problems around the Caspian basin. Such a development can have adverse effects for the development of Caspian oil fields in future. For instance, mass protests to a newspaper article in May 2006 humiliating the Azeri population of Iran has once more demonstrated the delicacy of this issue.49

Like Georgia, Azerbaijan has also been involved in conflict in the Transcaucasus that involves neighboring Armenia. This conflict between the two former Soviet republics was over the control of Nagorno-Karabakh, a mountainous part of Azerbaijan populated by ethnic Armenians who want to become either independent or unite with neighboring Armenia. The main export pipeline of Baku-Tbilisi-Ceyhan passes just north of this conflict area, which makes external powers look for a quick resolution ways in order to secure the energy routes.

The conflict between Azerbaijan and Armenia has deep roots back in history and once more came to surface at the end of the Soviet era. After Gorbachev came to power in 1985 his glasnost and perestroika policies stimulated conflicts over disputed lands in the USSR, where ethnic minorities were basically vying
for self-determination rights among themselves. The Karabakh conflict, which was the first one with an ethnic-political character, got started in this period. In this area, compared to Azeris the Armenian population was in majority because they were settled here mostly after the Russian advance in the Caucasus and they were given autonomy status in the Soviet era as a part of Stalin’s minority nations control policy. In early 90’s the Soviet authorities could not prevent the conflict and the brutal clashes in this region. After the collapse of the Soviet Union the conflict entered its new phase. During 1992-94 Armenians could occupy 20% of the territory of Azerbaijan, including Nagorno-Karabakh with a strong support of Russian military forces in Armenia. Internationally the CSCE later OSCE attempted to deal with the conflict. The OSCE’s Minsk Group consisting of three co-chairs Russia, France and USA attempted to solve the dispute between two Caucasian countries. Because the OSCE Minsk Group is equally balanced between the co-chairs, it doesn’t possess any executive force. The parties have not accepted the suggested ways of resolution by the Minsk Group so far. Since Russia has the control over the conflict it could obtain a cease-fire agreement under Moscow leadership in May 1994. After this period many attempts have been made under the leadership of international organizations such as the Minsk Group, the UN, the European Parliament and Council of Europe in order to find a peaceful solution. Also ad-hoc diplomacy between the regional leaders of this region was the case. The fact is that nothing positive could be gained concerning the problem since 1994.

Conclusion

The Caspian region contains significant energy resources for the future world energy security and at the same time is overstrained by ethnic rivalries and struggles. Most of these conflicts are frozen but not resolved completely. Factors like the mismanagement of ethnic minority issues, intervention of external powers have had a significant impact on these conflicts around the Caspian basin. As such an end to ethnic conflicts within and between the Caspian states and the achievement of a lasting peace require endorsement by all the regional powers. The future resolution of the conflicts will ease the tension in the region and contribute to the economic development of the Caspian countries as well as successful construction of pipeline routes.

Though the Middle East countries will keep to dominate the global energy market for many years to come, oil and gas development in the Caspian basin could offer an opportunity to diversify, secure, and stabilize European and world energy supplies in the future, as resources from the North Sea have eased the concerns in the past for Europe. Today’s energy reserves in the Caspian and adjacent regions with their
proven and promising energy reserves at least around 115 billion barrels of oil are indeed many times bigger than those of the North Sea and will emerge to the world markets as the secure pipeline projects from the region are realized.

Endnote

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