OIL AND GAS PIPELINES POLITICS IN CENTRAL ASIA

UZMA SIRAJ

MPhil

REG NO. 09-FSS/MSPSIR/07

Department of Politics and International Relations

Faculty of Social Sciences

International Islamic University Islamabad

2010

4.8.2010

1. Petroleum industry and trade.
2. Petroleum industry and trade — Political aspects.
3. Gas industry

OIL AND GAS PIPELINES POLITICS IN CENTRAL ASIA

UZMA SIRAJ

REG NO. 09-FSS/MSPSIR/07

Supervisor

Prof. Dr. IJAZ SHAFI GILANI

Department of Politics and International Relations

Faculty of Social Sciences

INTERNATIONAL ISLAMIC UNIVERSITY ISLAMABAD

Oil and Gas Pipelines Politics in Central Asia

Uzma Siraj

09-FSS/MSPSIR/F-07

A thesis submitted in partial fulfillment of the requirements of the degree of

Masters of Philosophy in discipline Politics and International Relations

At the faculty of Social Sciences International Islamic University Islamabad

Supervisor **July, 2010**

Dr Ijaz Shafi Gilani

(Accepted by the Viva Voce Committee)

OIL AND GAS PIPELINES

POLITICS IN CENTRAL ASIA

by

UZMA SIRAJ

MPhil. Student

Reg. No. 09-FSS/MSPSIR/-07

Accepted by the Department of Politics and International Relations, Faculty of Social Sciences, International Islamic University Islamabad in partial fulfillment of the requirement for the award of the degree M.phil Politics and International Relations.

Dean _____

Head of Department _____

Supervisor _____

(Dr. Ijaz Shafi Gilani)

Internal Examiner _____

(Dr. Qandeel Abbas)

External Examiner _____

(Dr. Noman Sattar)

Dated_____

DEDICATION

Dedicated to my parents, husband and

my dearest daughter

ABSTRACT

In the post cold war era, growing energy demands in Europe and Asia has turned the attention of regional and international powers towards the energy resources of Central Asia. However, the greatest obstacle for these powers is the lack of export routes for these resources. USSR developed a pipeline network before 1991 for the energy trade. Breakup of USSR opened the region for international investment. USA and EU proposed the construction of new pipeline routes, which bypass Russia. This provided an opportunity to decrease dependence over Russian gas export and Central Asian countries to diversify their energy trade. However, the main hurdle in the development of Central Asian energy sector has been the difficulty of finding the long-term export routes acceptable to all countries involved in the energy politics. Due to this pipelines politics Central Asian states are sandwiched between great power's interests. The greatest challenge for them is to diversify their energy export through the construction of new pipelines for their economic development accommodating all interests involved in this energy and pipeline game.

ACKNOWLEDGMENTS

In the name of Allah Almighty, the most merciful and most gracious, who gave me courage and strength to undertake this difficult task. Without his guidance and mercy, I would have never been able to accomplish this task.

It is a pleasure for me to thank all those who have been a source of inspiration, cooperation and assistance for me throughout this work.

First and foremost I offer my sincerest gratitude to my supervisor, Dr Ijaz Shafi Gilani, who has supported me throughout my thesis with his patience and knowledge, whose encouragement, supervision and support from the preliminary to the concluding level enabled me to develop an understanding of the subject. He has been generous enough to provide me time and guidance despite of his several engagements.

I would like to thank Dr Nazr-ul-Islam, Dean of Social Sciences for his encouragement throughout my stay at International Islamic University, Dr Muhammad Islam, who became a source of inspiration for me to conduct research on Central Asia.

During my research, I visited many research institutions and libraries. I thank to the staff and management of all those institutions. In my daily work, I have

been blessed with a friendly and cheerful group of fellow students and colleagues.

Last but not the least; I cannot forget to acknowledge support and encouragement of my family. My enlightened husband, without whose cooperation and encouragement I would have never been able to carry out this intricate work. I shall never forget the real affection and prayers of my parents, who have been my pillars of strength throughout my life.

TABLE OF CONTENTS

ABBREVIATIONS

BCM	Billion cubic Meter
BTC	Baku Tblisi Ceyhan
CA	Central Asia
CACP	Central Asia Center Pipeline
CNPC	China National Petroleum Company
EIA	Energy information Administration
EU	European Union
IEA	International Energy Agency
KCTS	Kazakh-Caspian Transportation System
NDP	National Delimitation Program
OSCE	Organization for security & Cooperation in Europe
SCO	Shanghai Cooperation Organization
TAP	Trans Afghan Pipeline
TCF	Trillion Cubic Feet
TCP	Trans Caspian Pipeline
TNLM	Turkish National Liberation Movement
USSR	Union of Soviet Socialist Republic

Chapter-1

INTRODUCTION

1.1– BACK GROUND

It is beyond any doubt that the economies of the major powers depend on foreign energy resources. U.S, Russia, China and other international and regional powers do not have enough resources of energy. Energy resources and international politics are linked like Siamese twins. For the record, petroleum and natural gas are different products, but both are used for energy - both, like coal, are hydrocarbons. The major difference is that while petroleum reserves are more or less known worldwide, gas reserves are still to be exploited. The 21st century, it is believed, will be driven by gas just as the 20th century was propelled by petrol. As the competition between major world actors was first seen in the oil resources of Middle East, and it became the hot spot of the world politics. After many decades, a shift is being observed in the energy and resource politics of major international and regional powers.

The disintegration of the Soviet Union has witnessed the emergence of Central Asian region as an important region in the world politics.[1] Owing to its geographical location and vast untapped oil and natural gas resources, Central Asia has assumed an important strategic role in the global politics. However, the importance of Central Asian region as an important energy supplier was not discussed before the independence of these states from Soviet Union in 1991.[2]

Central Asian oil and gas reserves have a history of its own. Azerbaijan was producing most of the world's oil at the start of twentieth century. Hitler occupied Baku's oil wells during Second World War. Overall, The Caspian region contains approximately 90 billion to 200 billion barrels of oil, and about 46 per cent of the world gas resources[3]. The oil reserves might prove to be the third largest in the world, after western Siberia and the Persian Gulf; with prospecting and development within the next 15 to 20 years, they might turn out to be large enough to replace the Gulf for second place. Turkmenistan and Uzbekistan were major gas producers during the Soviet era. Kazakhstan's

---

1. The Central Asian region consists of five Republics Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan situated east of Caspian Sea. In addition, one state Azerbaijan in the west of Caspian Sea. Some geographers consider all six states as part of central Asian region in broad perspective; however, no clear definition of the Central Asian region has been defined yet. Throughout this research, unless otherwise stated all references to this region also include Azerbaijan.

2. Reinhard Krumm, "Central Asia: The Struggle for Power, Energy and Human Rights", *Compass Friedrich-Ebert-Stiftung Magazine*, January, 2007.

3. Energy Profile of Caspian Sea. Issue brief. Web. 12 Oct. 2009. http://www.eoearth.org/article/Energy_profile_of_the_Caspian_Sea_region

oil and gas reserves were also well known at that time. These resources played an important role in Soviet economy. Soviet Union established a vast pipeline network for the export of these energy resources.

After the fall of Soviet Union, many local and international petroleum companies showed their interest in the region. However, energy resources of Azerbaijan, Kazakhstan, and Turkmenistan are mainly under developed even after twenty years of independence.

The fact that Central Asian region possess a large number of petroleum resources, promoted an intense competition between regional and non-regional actors for the control of these potential reserves.[4]

On the other hand, major world powers including USA, Russian Federation, European Union, and China started activities in the region. In addition small regional powers extended cooperation towards these states to gain economic benefits for their development.[5]

1.2 – STATEMENT OF THE PROBLEM

New claimants like U.S, European Union, Iran, Turkey and China emerged for the energy resources of Central Asia besides Russia after 1991. Balance between Central Asian Muslim states and Russia was disturbed after their independence. U.S sponsored "Broad Central Asia" project focuses on

---

[4]. Mehdi Aminah. *Towards the Control of oil Resources in the Caspian Region* (New York: St Martin Press, 1999), p. 1.

[5]. Bulent Gokey. *The Politics of Caspian Oil,* ed, (New York: Pal grave Publishers, 2001), p. 235.

economic integration and accommodates the needs for development in energy rich Central Asia. On the other hand, China is gradually increasing its influence in Central Asia through economic cooperation with these states. Russian interests and influences still dominate the regional politics. In this scenario, a new competition or a new great game has started in the region to take over the control of regional resources.[6] Construction of new pipeline routes is very important for this purpose. The lack of consensus over the pipeline routes and politics over them are big cause of underdevelopment of these economies despite of heavy investments in the energy sector by global and regional political and economic players. This unresolved resource game is a big cause of turmoil, instability, and underdevelopment of the region. Development of Central Asia and Caspian Sea oil and natural gas, along with the necessary export pipelines, has been slowed by resource politics besides political instability, and a lack of regional cooperation. This research will try to answer a very important question, how this resource politics can be changed into a healthy competition for the economic development of these poor states?

1.3- HYPOTHESIS

Newly independent Central Asian Muslim states are mostly under developed and backward. Before independence, Soviet economic system was highly

6. The Great Game is a term used for the strategic rivalry and conflict between the British Empire and the Russian Empire for supremacy in Central Asia.

centralized. The economic resources of these states played an important role for the development of Russian economy but did not contribute for their development. After independence of these states, they started looking outside the region for diplomatic and economic assistance. They did not have enough resources to develop their energy sector and gain profit for their economic development. Central Asian states heavily depend on foreign investment in energy and pipeline sector for their economy. On the other hand Europe and other regional states badly needs Oil and gas of Central Asia to meet their growing energy demands. For this purpose construction of new pipelines is a pre- requisite. This interdependence invited the rivalry of big regional and international powers for the control of these resources. Now whatever pipelines routes are being proposed and constructed serve the strategic objectives of any of the big power. And consequently these states are suffering economically.

1.4- REVIEW OF LITERATURE

Gas and oil pipelines have played a significant role in the Central Asian affairs since the breakup of Soviet Union in 1991. It has become a matter of debate among the experts worldwide. Some suggests that pipeline politics represents growing interdependence between West, Russia and Central Asia. West is striving hard to decrease its dependence over Russia for oil and especially gas, While Russia is continuously trying to retain its dominant role

in the region. Pipelines are going to play the most important role in this regard. Sheila, N. Heslin is of the view that as the Central Asian states have asserted their independence, they have sought international support to help protect their sovereignty, resolve regional conflicts, and link their land-locked Caspian energy reserves with global markets through diversified infrastructure corridors. In return, they continue to offer access to their vast resources to those who are able and willing to help them advance their independence and economic development. As a result, the Caspian region's vast energy reserves have created a highly competitive commercial environment for companies from the U.S., Europe, Russia, the Persian Gulf and Asia and they have positioned themselves to become an important new player in the global energy market.

Thinking on different lines, Jeffery Mankoff expresses his view in this way. Russia's emergence as a dominant actor in the affairs of Central Asia is taken as both a challenge and an opportunity as well in the west. Russia is taken as a problematic partner in the west. Its policies can contribute to enhancing energy security and diversification of pipelines as well as towards more instability in the region.[7]

Gal Luft presents another view in his book, 'Energy Security in the 21st Century: A Reference Handbook'. He thinks that Europe has been dependent

[7] Jeffery Mankoff. *Eurasian Energy Security* (New York: Council on Foreign Relations Book, 2009), p. 26.

on Russia for its gas requirements. Independence of Central Asian states provided them with an opportunity to diversify their gas imports. For this purpose, Central Asia became a good choice. An important reason for looking at Central Asia for energy supplies and for that matter construction of pipeline routes is Central Asia's proximity to Europe. Europe considers Central Asian energy reserves vital for its future energy consumption and economical for the trade between the two regions.[8]

David Victor's book Natural Gas and Geo Politics is written in a broad perspective. It covers the pipeline history from 1970 onwards. It describes the trends in energy game. It throws light over pipeline issue especially after the fall of Soviet Union. David Victor talks about the future prospects in this Great Game 2.

Michael P Croissant "s book Oil and Geopolitics in the Caspian Region is significant because it covers the pipelines politics of Central Asia from every aspect. He not only talks about the big players involved, but also the role of small nations of the region in the growing competition and in this energy and pipeline politics. He is of the view that these small regional countries are very important for US and Russia. They provide a transit route for oil and gas pipelines from central Asia and Caspian to Europe. Their policy will determine the winner of this game.

---

[8]. Gal Luft. Anne Korin, *Energy Security Challenges in the 21st Century: A Reference Handbook* (California: Greenwood Publisher, 2009), p. 109.

Hooman Peimani's book Caspian Pipeline Dilemma deals only with the pipeline issue. It not only presents the ongoing politics in the Central Asian region for the developments of pipeline routes, but also gives a detailed account of technical aspects of every pipeline.[9]

Lutz Klevemen in his book 'The New Great Game' analyzes the events of 19th century and takes them to current era. He describes the causes and after effects of first Great Game and relate them to the new Great Game in the Central Asian region. He also discusses the similarities and differences between the two Great Games.

Besides these books, journal articles from Middle Eastern studies and others gives a good understanding of politics of pipeline in the Central Asia.

News Channels, news websites and research institutes working on Central Asian region cover the pipeline politics from every aspect and they provide an updated information about the issue.

The pipeline politics has become an issue of great importance in the international politics. The future of western energy sector and economic development of Central Asian region greatly depends upon the revenues generated through energy trade. In addition, this literature along with many other books, articles and researches discussed in this thesis deal very well with the subject.

---

[9]. Hooman Peimani. *The Caspian Pipeline Dilemma* (London: Greenwood Publishers, 2001), pp. 73-76

1.5 – OBJECTIVE OF THE STUDY

This research is aimed at finding the inherent causes and solution for this unresolved resource politics of Central Asia. As we know that, this region contains the second largest energy resources of the world after Middle East. After the decades of exploitation of Middle Eastem oil, world is looking for new resource centers. Central Asian energy resources can be of great benefit for the economic development of the world and especially of the under developed states of Central Asia.

Nevertheless, the ongoing political instability and interest game of big players is a great hurdle in development of these states and their resource infrastructure. In order to explore these resources for the well being of humanity it is very important to tum this ongoing resource politics into a healthy competition, so that Central Asian Muslim states can explore their resources fully and they may export them with the help of financially stronger countries for the economic development of other countries. This research will try to find those aspects, which are very important to tum this political conflict into a healthy competition. So political turmoil comes to an end, and in maintaining a positive environment for the development of infrastructure to build new pipelines and export routes, and these states start developing economically.

1.6 – SIGNIFICANCE OF THE STUDY

A lot of work has been done about the energy resources of Central Asia. Russian dominance over these resources has widely been discussed along with its conflict and competition with other powers to maintain its control over these resources. However, this research will go one-step forward. It would not only present a detailed account of oil and natural gas resources of Central Asia, its pipelines infrastructure, old pipelines, proposed projects, export routes and politics behind them. For this purpose this work is research is divided in six chapters. The emphasis of this research will be to prove that although international powers are investing a lot of money in the region to fully explore and develop these resources and in construction of new pipelines and export routes, but actually they are struggling to establish their monopoly over these resources. This has proved to be counter productive for the region's economic development. In this way, this research will take the previous work done on this topic one-step forward and try to explore those areas in which not much work has been done yet.

1.7 – RESEARCH METHODOLOGY

This research has been conducted by using different research methods.

Library research was made to explore and analyze the historical backgrounds of Central Asia's political and economic system.

It was further divided into document analysis, and event analysis. Document analysis and event analysis especially, during post Soviet rule to draw theoretical framework for our study.

In addition, books written on Central Asian politics, especially its resources and pipelines after the fall of Soviet Union have been consulted for an insight into the pipeline politics.

Research reports and data prepared and published by renowned institutions working on the region. Like Central Asia and Caucasus Institute, Carnegie Endowment for International Peace etc. Articles written by renowned scholar and published by research institutions have also been consulted besides the books written on the region, its energy resources and politics of Central Asia.

It will include period from 1991 when Central Asian Muslim states gained independence to date. Historical references would be included from the Soviet era.

Though the thesis was meant to discover the imperative causes of energy and pipeline politics but the query was made by taking the issue into broader perspective. It was not possible to discuss pipeline politics in isolation so this research will also discuss the technical, economic and strategic aspects of every pipeline from the point of view of every interest holder to present a comprehensive picture.

. In addition, books written on central Asian politics, especially its resources and pipelines after the fall of Soviet Union have been consulted for an insight into the pipeline politics.

1.8 – THEORETICAL FRAMEWORK

In this new Great game political and economic interests are intermingled.[10] Through financial assistance and investment in the pipeline projects U.S, China, Russia, and other states are trying to accomplish their political and strategic objectives.

The economic and political interests involved in this game are

i- The struggle of different players especially, US and European Union to reduce dependence on Gulf oil.

ii- To keep price mechanism stable

iii- To secure a share in the huge oil & gas reserves exploration and development projects

iv- Future energy requirements of Europe

A tremendous struggle is going on to control the pipeline routes for the export of oil and gas outside the region.

---

[10]. Charles Van Der Leeuw. *Oil and Gas in the Caucasus & Caspian: History* (New York: St Martin Press, 2001), p. ...

These pipelines would pass through many countries.[11] For all the actors involved in this game, control over these pipeline routes means control of the region. Some experts are of the view that Russian efforts to control over the pipeline routes exacerbated the international rivalry over the pipeline routes. While some are of the view that Central Asian states have been more than eager to develop their energy resources as a prerequisite for revitalizing their declining economies and to address increasing number of transitional challenges. In addition to a wide range of problems created during Soviet rule. Central Asian economies severely need to generate revenues for a long period to deal with all the political economic and social issues, faced by these states. Especially in the absence of other options, the development of oil and gas resources and their exports have gained paramount importance. Development projects would have been started even when there was low demand for Central Asia's oil and gas. It was expected that the oil and gas demand would further increase. Start of twenty first century witnessed a sudden boost in oil and gas demands in Asia and European Markets. This sudden increase in demand diverted the world's attention towards Central Asian energy resources. The unstable political and security environment in Middle East after the Afghanistan and Iraq wars is a big cause of worlds' attention towards

---

[11]. Hooshang Amirahmadani. *The Caspian Region at a Cross Road: Challenges of a New Frontier of Energy and Development* (New York: St martin Press, 2000) ,p. 4

this region. This situation necessitated the idea of altemate routes for oil and gas.

Perhaps the main obstacle in the development of energy resources have been the problem of finding of a long term and mutually agreed export routes. Many export routes were proposed and among them, several pipelines have become linchpin in the policies of great players towards Central Asia. Every option has some supporters and some opponents.[12]

Russian route, which is the traditional corridor for Central Asian states, is not supported by USA. Because USA wants to weaken the Russia's strategic, control over these energy resources and reduce European reliance over Russian pipeline network. Therefore, West and U.S do not favor any such pipeline that runs through Russia. All of these regional and global players want to establish their firm control over these resources, as the future of their energy consumption heavily depends upon them. On the other hand, Central Asia states are dependent over outside investment for the development of their energy sector and their economy. So this interdependence has become a big cause of this intense competition and politics. This "interdependence" for energy requirements would be the theoretical framework of this research.

In such a complex political and economic environment, it looks that no pipeline would be able to contribute positively. In every instance, political

---

[12]. Lutz Kleveman. *The New Great Game: Blood and Oil in Central Asia* (New York: Atlantic monthly Press, 2003), p, 29

thirst knocks against the economic interests of the regional states. Before we analyze the pipelines and politics behind them, first we have a look at the history of Central Asian region.

Chapter -2

HISTORICAL BACKGROUND

The Collapse of Soviet Union in 1991 gave birth to new Muslim states in Central Asia. The newly independent states suddenly got importance for one reason or the other. Central Asian Muslim states of Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan and Azerbaijan became prominent due to their rich energy resource, especially oil and gas. Transportation of their oil and gas through pipelines to other regional countries has become a highly debated issue today. Before indulging into the detailed analysis of their energy sector, we first look at the geography and historical background of the region.

2.1 - GEOGRAPHY

The newly independent states of Central Asia cover an area approximately 4 million sq km[13]. The region is bordered by China in the east, by Caspian Sea in the west, Russian Federation in the north and Iran & Afghanistan in the south. Azerbaijan is the only country among these Muslim states situated in the west of Caspian Sea.

The Central Asia is an extremely large region of varied geography, including high plateaus and mountains (Tian Shan), vast deserts (Kara Kum, Kyzyl

---

13. Peter Ferdinand. *The New Central Asia and its Neighbors* (New York: Pinter Publisher, 1994), p. 4

2.2 - EARLY HISTORY OF THE REGION

Central Asia is one of the oldest civilizations of the world. For many centuries, it has been a crossroad for diverse ethnicities and a center of interaction between different civilizations, like, Persia, Greek, Indian, Islamic & Chinese. This region has also been a battleground for Persian & Greeks civilization before Christian era. Arabs came to Central Asia in early 8th century.[16] when Ibn-Muslim attacked the region. He found great resistance from people belonging to Turk tribes.

Sammanaid Empire was established in Central Asia in 9th century A.D, which incorporated Iran, Afghanistan and some parts of Turkmenia in the region. This was the time when the world saw the great literary contribution of the Muslim scholars of this region. Sammanaid Empire lasted for two centuries, and ended in the last phase of 10th century [17]. 13th century saw the great destruction of the region at the hand of Mongol invaders under Genghis Khan. The great conqueror Timor found the vast empire extending from India to Volga and Syria to China in the 14th century. Kazakh national groups emerged in 15th & 16th centuries as a consequence of feudalism and historical evolution. During this time, Central Asia's culture was greatly influenced by Indian, Chinese, and Iranian culture. In addition, whatever it borrowed was

---

[16]. Davendra Kaushik. *Central Asia in Modern Times* (Moscow: Progress Publishers, 1970). p. 16

[17] *ibid.* 22-25.

enriched further. The cities of the region like Bukhara, Khiva, and Samarqand were made beautiful with the construction of the great architecture.[18] The region remained isolated from 15th to 19th century. Only Russians visited the region in some 400 years according to American Counsel Schuyler, who was American Counsel General in Constantinople from 1870 to 1876. [19] That is why Central Asian culture had less impact of Europe or western culture.[20]Besides the visits of Russians, different missions from Bukhara and Khiva visited Russia. Russian delegations carried back valuable information about the region.

By the sixteenth century, two regional powers had established in Central Asia. The Khanates of Bukhara and Khiva. The Khanate of Bukhara occupied a large territory, which includes modern Uzbekistan, Turkmenistan, Tajikistan & Afghanistan. Khiva was smaller than Bukhara and some areas of Kazakh Turkmen region were part of it. Another power center emerged during eighteenth century and that was Khanates of Kokand. All these states were involved in disputes with each other.

The contacts that existed between Russia & Central Asia were of economic nature. Trade routes had been established between the two regions. The

---

[18]. Sir Olaf Caroe, "Soviet Colonization in Central Asia," *Foreign Affairs Journal*, vol. 32, no. 1, October 1953, p. 135.

[19]. Schuyler was the first American Diplomat to visit Russian Central Asia.

[20]. Shirin T. Hunter. *Central Asia since Independence* (Washington: Greenwood Publication, 1996), P. 5.

internal weakness and conflicts in Central Asian states made these routes vulnerable to foreign expansionist forces.[21]

2.3 - TSARIST RULE OVER CENTRAL ASIA

The trade routes developed between 15th to 19th centuries in Central Asia were economically beneficial but vulnerable to the foreign interference. These routes paved the way for external advancement in the region. Russian Tsarist started the expansion of their land southwards in the early 19th century. Gradually, they occupied the whole region. Tashkent was captured in 1865, Samarqand in 1868, Emirates of Bukhara in 1873 and Khanates of Kokand in 1876. In this way, all major power centers of Central Asia lost their autonomy.[22] This was the time when Russian empire had become one of the biggest empires of the world, and closest neighbor of Central Asia.[23] Russian Tsars advanced to the region for expanding their colonial holdings and for the riches of the cities along the Silk Road.

Tsarist rule in Central Asia is significant in a sense that they did not face much resistance during its occupation of the region, in comparison to the other colonial powers of the time. The region progressed economically. More

---

[21]. Ferdinand, The New Central Asia and its Neighbours, p. 8-10

[22]. *Ibid.*

[23]. H B Paksoy. *Nationality or Religion? View of Central Asian Islam*, Online http://vlib.ive.it/carrie/text/carriebooks/paksoy-6/caeoz.html , (Accessed on August 22, 2009).

trade links developed at the interstate & intra state levels. Railway links were developed for economic & defense purposes.

During the late 19th century, despite economic and technological development, Tsars faced some political challenges, as more power centers emerged on the world scene. Russians bordered with Ottoman Empire, Persians, British India and China. Despite its technological advancement, Russia was not able to generate much capital to face the challenges of such a geo political situation and compete with the advanced countries of Europe and America. Slow economic progress created problems domestically. This disturbance grew further after the unsuccessful rule of Nicholas II in 1894. Tsars were defeated by Japan in Russo-Japanese war of 1905. The policy of centralization of power showed its consequences after this defeat. This not only added to the weakness of Tsarist rule but a new chapter had begun in the history of Russia's colonial rule over Central Asia. This defeat added to the political instability of Russia. Tsars showed their willingness to transfer power to the constitutional Parliament. First Parliament Duma was abrogated within three months of its formulation. Same happened with the second. New electoral law of 1907 gave no rights of the franchise to the people of this region. Therefore, Central Asians could not get any representation in the third and fourth Duma. Central Asia continued to face repressive policies of Tsars, and they were forced to recruit in the army for First World War. These

repressive policies gave birth to the "Turkistan National Liberation Movement". Russia was not prepared militarily or economically so they met severe defeat in the First World War. Now they were advancing towards a revolution in social and political spheres. This defeat brought Tsarist rule to an end, on the one hand, and TNLM announced the formation of Autonomous Turkistan in 1917. Tatars also declared autonomy. Azerbaijan also became a republic. It seemed that Central Asians would gain complete independence from foreign domination.

2.4 - SOVIET ERA

After the fall of Tsars, Soviet revolutionaries reached Central Asia from Moscow. They knew that oppressive policies of the Tsars had created hatred among the local population. So in order to gain their support and cooperation, they made generous promises to Central Asian people to provide them their rights. However, as Soviet took the control of the region they proved not different from their predecessor Tsars. [24] Turkistan National Liberation Movement started at this stage. This Movement showed severe resistance to Soviets. Many areas of the region remained independent from 1918-1920 and same happened during 1920's and 1930's due to this movement. Soviets gradually occupied the region. They applied political and economic pressures

[24]. H B Paksoy. *The Basmachi Turkistan National Liberation Movement.* Modern Encyclopedia of religions in Russia and the Soviet Union, Academic International Press 1991, vol. 4, pp. 5-20.

over the local population and forced settlements of nomad's on Central Asian land.[25] Strict religious policy was adopted against Islam and Muslim population. That is why Russian occupation attempts were met with resistance from Islamic element of the Central Asian society. However, they failed, as they were not well organized. Finally, Soviet occupied the whole region. All Central Asian Muslim Republics (including Azerbaijan) became constitutional members of Soviet Union. The establishment of Soviet rule from (1918-1922) brought about great social & political transformation in the region. The National Delimitation Program was initiated in 1924 aimed at creating regional sub State identities except the tribal, clan or ethnic identity. This NDP incorporated all the territory that was under Tsars. The area under Khanate of Bukhara & Khiva was also included in this program. Under this program, Turkmenistan, and Uzbekistan SSR were given Union Republic status in 1924, Tajik SSR became Union Republic in 1929. Kyrgyzstan and Kazakhstan were given status of Autonomous Republic in 1936. [26] Azerbaijan SSR was also established in 1936 after the abolition of Trans Caucasian state. A highly centralized political & economic system was adopted in USSR. All

---

[25]. Richard Pipes. *The Formation of the Soviet Union, Communism and Nationalism 1917-1923* (USA: Harvard University Press, 1954), pp. 105-112.

[26]. Central Asia. *Encyclopedia Britannica*. 2009, online http://www.britannica.com/EBchecked/topic/102288/Central-Asia, (Accessed on November, 4, 2009).

political cultural and economic institutions were made subordinate to Central govemment.

Political set up: As far as political system was concemed, it was highly centralized. All-important decisions related to politics, defense, and foreign policy, economic resource allocation was in direct control of Moscow. There were some important installations, built in Central Asian states, like, military bases, nuclear testing sites in Kazakhstan and military industrial complexes. But all of them were directly controlled by Moscow. Local governments did not have any power to interfere in them. Even they did not have proper information about them. Contacts with these republics were only possible through Moscow.

2.5 – ECONOMIC BACKGROUND

Same was the case with economy. Little attention was paid towards the industrialization of these states. Production of basic commodities was emphasized. All economic resources were in hands of Central govemment.

Agriculture and energy were two most important sectors of Central Asian economy. Agricultural system not modernized. Such agricultural policies were adopted by the govemment that could be dangerous for Central Asian land, agriculture and environment. Like diversion of water from Siberia. As far as energy was concerned, Five Central Asian Muslim Republics and Azerbaijan were rich in energy resources especially oil and gas. (In the 2nd

world war when Russia was attacked by Hitler, he took control of the Oil fields of Caucasus in 1942)

Kazakhstan had been producing petroleum since 1911 from Emba deposits near Caspian Sea. In 1979, the world's largest oil reserves were discovered near Tengiz in Kazakhstan [27]. Uzbekistan was the third largest gas producing state of USSR. It had been exporting gas since 1960 and during 1980's and 1990's it was the world's third largest gas producer. Petroleum deposits of Turkmenistan had been extracted from 1930's from Nebit Dag deposits in Caspian coastal plains. Azerbaijan had been the largest oil producer in USSR. It is considered as one of the pioneers in the oil and gas industry. Azerbaijan drilled its first oil well in the start of 20th century and had been producing half of the supply of world's oil at that time.[28]

All these energy resources fell in direct control of USSR with the Bolshevik revolution and remained in Soviet control until 1991. Hence, Central Asian states and Azerbaijan did not get any benefit from their rich energy resources as they were developed for Moscow's economic and industrial strength. State's governments did not enjoy any kind of control over their production, transportation or trade. Moscow developed its own infrastructure for the refinement, transportation and export. Refining plants, railway links and

---

[27]. Giampaolo R Capisani. *The Hand Book of Central Asia*, (London: I. B Tauris Publisher. 2000), pp. 39-50.

[28]. Mir Yousaf Mir Babayev. "Azerbaijan's Oil History: A Chronology Leading up to Soviet Era" *Azerbaijan international*, Vol. 10, issue. 2, Summer, 2002, pp. 34-40.

pipelines were built for these purposes. This monopoly of Soviets did not end even after the end of USSR and independence of these states. Still the whole energy industry is dominated by Russia.

2.6 – BRIEF ACCOUNT OF POST SOVIET ERA

The Muslim states of former Soviet Union got independence in 1991 after the collapse of USSR. However, there was no strong freedom movement in Central Asia before 1991. One of the causes for this can be the conservative leadership of these states, who discouraged nationalist tendencies. They did not support the reform process from 1987-1991 nor they support the collapse of Soviet Union. With no preparation for independence, the collapse of USSR brought a series of challenges for these states for nation building, political stability and economic development. The geo political situation of the region made it more difficult for these states. As they did not have access to open seas and they did not have direct contact with the outer world. However, Central Asian culture religious trait and economic opportunities especially the rich natural resources attracted the regional and global powers to the region. As these states varies in major characteristics like, population, area, ethnic composition, resources and geographical location. They developed differently. Their post independence history is marked by continuous political and economic instability. Politically it has shown authoritarian trend. Economically neither they have achieved a good progress, nor have they been

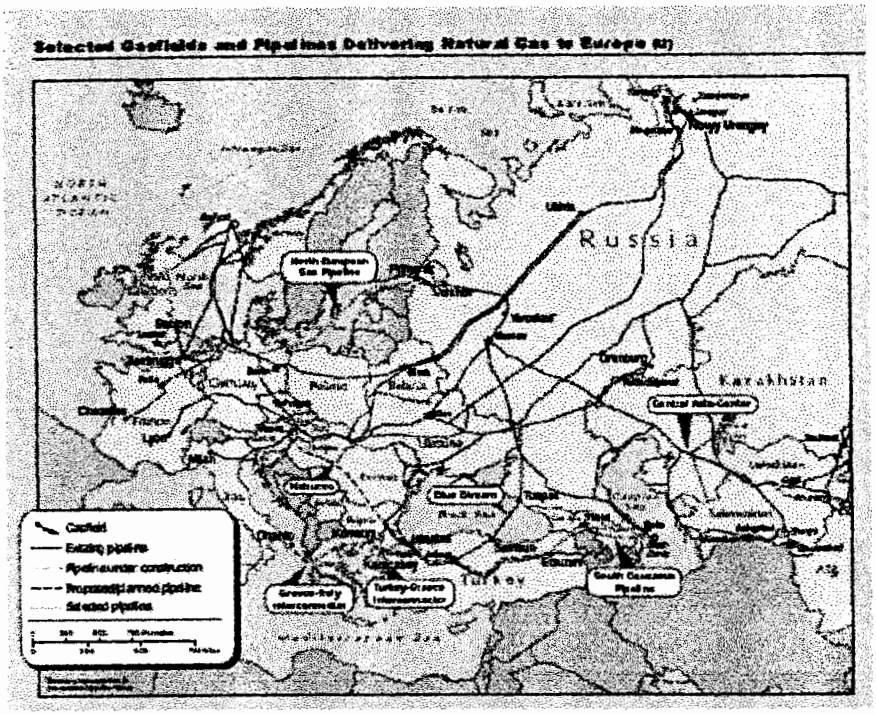
able to come out of Russian influence. Their economies were underdeveloped at the time of independence. Moreover, civil war in Tajikistan, Uzbekistan's upsurge for regional leadership, Azerbaijan Armenia conflict and internal unsettled political conditions have delayed the process of economic and resource development. Most importantly the interference of the big powers for the control over their natural resources especially oil and gas and their pipelines have become the most important issue of the post Soviet period of Central Asia.

Chapter-3

OIL AND GAS PIPELINES OF CENTRAL ASIA

The disintegration of Soviet Union transformed the region's social political geographical and economic conditions. Independence of Central Asian republics drew the attention of major regional & global powers towards their vast energy resources. An intense competition started to gain control of these resources. This competition has another important aspect and that is the control of pipelines, which transfer oil, and gas of Central Asia to the outer world. These pipelines have become an apple of discord in the region's politics. As major oil and gas producers of the region Turkmenistan, Kazakhstan, and Azerbaijan are land locked and their access to western markets and outer world is only possible through pipelines.

Therefore, they depend on existing pipelines system established during soviet era (owned by Russia and which increases their dependence on Russia and its influence over them). Second option for them is to construct new pipelines.



Map of Major pipelines of Central Asia, Source: www.eia.doe.gov

(Some pipelines are under construction and some are under consideration). The routes of these pipelines have become a controversial issue. There are about 25 oil and gas pipelines in the region. However, we will focus on few major pipelines. Before discussing the politics of energy resources and pipelines since the late 1990s, it is instructive to look at what the major existing and proposed pipelines in the region following the break-up of the Soviet Union were.

MAJOR PIPELINES

1- Trans Afghan pipeline (TAP)

2- Turkmenistan Iran pipeline (Korphedze-Kurt-Kui also known as Pipeline)

3- Turkmenistan China Pipeline

4- Central Asia Centre Pipeline

5- Trans Caspian Pipeline (TCP)

6- Baku- Tbilisi- Ceyhan Pipeline (BTC)

7- Nabucco Pipeline

3.1 –TRANS AFGHAN PIPELINE

Trans Afghan pipeline is a proposed project to build a pipeline from Turkmenistan to Pakistan via Afghanistan (probably to India). This pipeline will export gas from Turkmenistan's Giant Daulatabad gas field near Caspian Sea to South Asian market.

History of the Project

Trans Afghan pipeline was initiated in March 1995. Pakistan and Turkmenistan signed a memorandum of understanding for the construction of a gas pipeline from Turkmenistan to Pakistan. Then in October 1995 Turkmen President Sapar Murat Niyazov, US firm Unocal and Saudi company Delta oil signed an agreement to construct a pipeline from Turkmenistan to Pakistan.[29] Unocal took special interest in this

[29]. Sadia Suleman. "US Policy in Oil Rich Caspian Basin" www.issi.org.pk/journal/2002-files/no-1/article/79.htm, accessed on, October 13, 200[illegible].

project and proposed to build a gas pipeline only for the export of Turkmen natural gas to south Asia.

A consortium was formed for the project in 1996. Unocal, Central Asia gas pipeline LTD, government of Turkmenistan and Argentinean company Bridas were part of this consortium.

This project was also supported by Asian development Bank. Bridas joined the consortium in 1998 after the Taliban refusal to Centgas. Unocal left the project same year due to their concerns about growing terrorism in Afghanistan and Taliban government.

Share holders of the Project

A consortium was formed for the project in 1996. Share holders were as under

- Unocal Corporation USA 15%
- Delta oil Saudi Arabia 15%
- Gazprom Russia 10%
- Government of Turkmenistan
- Indonesia petroleum LTD
- Inpex Japan
- ITOCHU Oil exploration Co LTD
- CIECO Japan
- Hyundai Engineering and Construction South Korea
- Crescent Group Pakistan

All these companies were part of the consortium.

This plan was supported by United States also. However, when US launched air strikes against Taliban in southern Afghanistan Unocal suspended its operation in Afghanistan and withdrew its share.[30] Gazprom also relinquished its 10 % share in the project in 1998.

---

[30]. For details visit *http://news.bbc.co.uk/2/hi/south-asia/156479.stm* . (Accessed on October 14, 2009).

With the fall of Taliban in Afghanistan after 9/11, construction of Trans Afghan pipeline was reconsidered. A summit meeting held in Asghabat Turkmenistan's capital. Govemment of Turkmenistan, Afghanistan, and Pakistan formally signed the agreement in December 2002.[31] With the financial support of Asian Development Bank, feasibility report was completed and submitted to the respective governments in 2005. It was expected that construction of the pipeline would start in 2006.[32]However, increasing instability in Afghanistan became a reason for the postponement of the project. Negotiations again started between the governments of Pakistan Afghanistan and Turkmenistan in Islamabad.[33]They agreed on the basic framework and signed a deal in April 2008[34].

Technical Features of the Project

Tran's Afghan pipeline is a 1,680 km long pipeline. This pipeline will run from Daulatabad gas field of Turkmenistan and pass through Afghan cities of Heart and Qandhar, then entering Pakistan at Quetta and crossing Multan

---

[31].Ian Macwilliam. "Central Asia Pipeline deal Signed"

Link, http:// *news .bbc.co.uk/2/hi/south-asia/2608713.stm*, December 27, 2002, (accessed on October 15. 2009).

[32]. For Detail http://www.energybulletin.net/node/4089 , (Accessed on October 17. 2009).

[33].Bruce Pannier, Central Asia: Trans Afghan pipeline discussions open in Islamabad, *Radio Free Europe*, http://www.rferl.org/content/article/1109618.html, (Accessed on October 19, 2009).

[34].Trio sign up for Turkmen gas, *http://www.upstreamonline.com/live/article153168.ec*, December 21, 2009. (Accessed on October 18, 2009).

proceeds to India. This pipeline will export approximately 33billion cubic meter of gas annually.[35]

The pipeline will be of 1,420 mm diameter and working pressure of gas will be 100 atmospheres.[36] Construction of six-compressor station is also included in the plan. It is expected that this pipeline would start working by 2014. Estimated cost of the project is 7.6 US $ billion financed by Asian development Bank.

3.2 - IRAN TURKMENISTAN PIPELINE

(Korphedze kurt Kui Pipeline)

Iran Turkmenistan pipeline is a very important route for the import of the Turkmen gas. Korphedze Kurt kui is one of the routes for Turkmenistan. This pipeline was constructed in 1997. It is a 120 miles long pipeline.[37] This is the first pipeline, which does not cross Russian territory.

Share Holders of the Pipeline

Turkmenistan and Iranian govemment jointly launched the plan and Turkmengaz and National Iranian Oil Company were the major shareholders of the project.

---

[35]. Bruce Pannier, *www.rferl.org*, (Accessed on October 19, 2009).

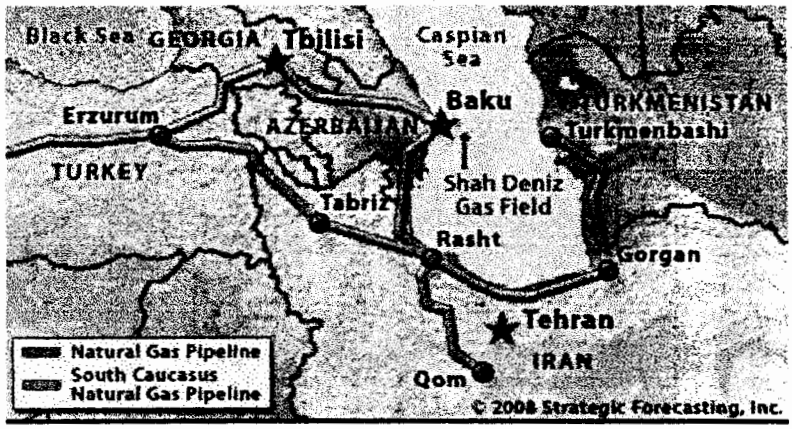
[36]. "Gas pipeline Project Turkmenistan, Afghanistan, Pakistan India approved", *Alexander gas & oil connections*, News and trends: Central Asia, vol. 2 issue no. 23, Friday Dec 08, 2006.

[37]. Energy Profile of Central Asia,

http://www.eoearth.org/article/energy_profile_of_central_asia#Korphedze_kurt-Kui_pipeline (Accessed on July 21, 2009).

Both countries signed a 25 years contract.[38]Iran was the major investor in the project with 90% of the share, while Turkmenistan later paid back its share of construction cost by gas deliveries.

IRAN'S EXISTING NATURAL GAS PIPELINES



Iran imports natural gas from Turkmenistan and exports to Turkey. By 2012 it hopes to import natural gas from Azerbaijan's Shah Deniz field in the Caspian Sea, which currently feeds the South Caucasus Pipeline.

Source: www.eia.doe.gov

Technical features

This is 200km long pipeline, which connects Korphedze gas field in the western Turkmenistan to Kurt Kui in the northern Iran. Initially, its capacity was 4 billion cubic meter annually. Later, it was expected that capacity would be increased to 8 billion-cubic meter annually in 2006. However, this did not happen and its capacity reached only 6.5 bcm.[39]Approximately 195 million

---

[38]. David G Victor, Amy Jaffe, *Natural Gas and Geopolitics: from 1970 to 2040* (New York: Cambridge University Press, 2006), p. 213.

[39]. Iranian media reports on new gas pipeline, *BBC News* December 29, 1997. *http://news.bbc.uk/z/hi/world/monitor/43226.stm* , (Accessed on August 22, 2009).

dollars were spent for this pipeline.[40]Turkmen president Sapar Murat Niyazov and Iranian president Muhammad Khatmi inaugurated the pipeline in December 1997.[41] In 2007, Turkmenistan's president inaugurated a new gas processor plant worth of 120 million dollar to increase gas flow to Iran.[42]

Iran Turkmenistan pipeline Phase Two

History

Another project between Iran & Turkmenistan for the export of natural gas was agreed upon in July 2009. This decision was taken after the Turkmen-Russian tension over pipeline blast in which Turkmen govemment held Gazprom responsible for the blast[43]. This resulted in a halt of gas trade between Turkmenistan and Russia. (Turkmenistan depends on Russian pipeline system for its gas export to Europe and international market). This pipeline was completed and inaugurated on January 6, 2010, in a ceremony in Serakh district of Turkmenistan. This ceremony was attended by the president of Turkmenistan Garbanguly Berdi Mukhammadov and Iranian president

---

[40]. "Iran Turkmenistan Gas Pipeline: Inauguration Slated for late Dec", Economic Desk. *Tehran Times*, august, 15, 2009.

[41]. Iranian Media reports on new gas pipeline, *BBC News*

[42]. Country analysis brief: Central Asia , *http://www. eia.doe.gov* (accessed on October 22, 2009).

[43]. "Central Asia energy special series (part two) External Factors", *Stratfor Global Intelligence*, December 4, 2009.

Mahmud Ahmadi Nejad.[44] President of Islamic Development Bank and Turkish energy minister was also present at the occasion.

Technical Features

This pipeline is 155km long. Daulatabad gas (situated in south east of the country) field is the starting point of this pipeline, and it ends at Khangiran in Iran. The initial capacity of this pipeline is 8billion cubic meter annually.

3.3- CENTRAL ASIA-CHINA PIPELINE

China has always been interested in Central Asia's energy resources. Due to its growing energy needs China started efforts to build pipeline from Central Asia just after the independence of Central Asian republics in 1991.

First step taken in this regard was taken when Chinese government signed an agreement with Kazakh government for Kazakhstan China gas pipeline in 2004.[45]Kazakh National Company Kazmunaigas and Petro China under took feasibility study of the project. Mean while China's effort to secure energy resources in other Central Asian states continued. In April 2006, Turkmenistan and China agreed to build a gas pipeline to export Turkmen gas to Chinese market.[46]This pipeline will pass through Uzbekistan so China also

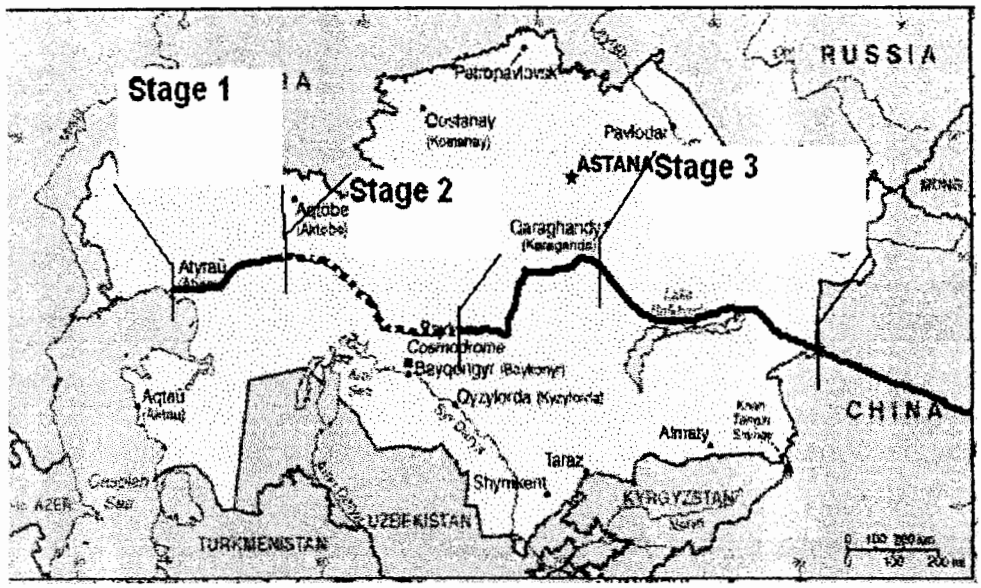
---

44. "New Turkmen-Iran Gas Pipeline Launched" *http://www.turkmenistan.ru/?pageid=38&lang_id=en&elem_id=16118&type=event&storlate=desc*. (Accessed on October 23, 2009).

45. "China, Kazakhstan Discuss Cross Border Gas Pipeline" *http://www.china.org.cn/english/BAT/105031.htm* . (Accessed on December 17, 2009).

46. "Central Asia: Turkmenistan-China pipeline project has far-reaching implications". *http://www.rferl.org/content/article/1067535.html*. (accessed on December 19, 2009).

signed an agreement with Tashkent in April 2007 and with Kazakhstan in November2007.[47]



Kazakhstan China pipeline source: www.eia.doe.gov

This pipeline would start from the Turkmen Uzbek border, stretches in Uzbekistan, and enter in Kazakhstan. After passing Kazakhstan, it will enter in northwestern China.[48]

Kazakh section of pipeline was completed in November 2009 and inaugurated on December 14, 2009. Central Asia China pipeline was inaugurated in a grand ceremony, which was attended by President of China Hu Jintao,

---

47. Shamil Yenikeyef. "Kazakhstan's Gas Export Market and Export Routes" *oxford Institute of Energy Studies*, November, 2008 online http://www.europeanenergyreview.eu/index.php?id=367

48. "Country Analysis Brief: Kazakhstan. *http://www.eia.doe.gov/emeu/cabs/kazakhstan/naturralgas.html*, (Accessed on December 23, 2009).

Turkmen President Garbanguly Berdimukhammadov, Kazakh president Nur Sultan Nazarbayev, and Uzbek President Islam Karimov.[49]

Technical Features

Central Asia China pipeline is 1,833 km long.[50] 188 km part of this pipeline is in Turkmenistan and 530 km in Uzbekistan. Initial capacity of this pipeline will be 4.5 to 10 billion cubic meters that will be raised to 17 billion cubic meters by 2011 and 30 billion cubic meters by 2012.[51]

Approximately US $ 7.3 billion is the estimated cost of the project.

Share Holders

China National petroleum Corporation CNPC

Turkmengaz Turkmenistan

Uzbekneftgaz Uzbekistan

Kazmunaygaz Kazakhstan

---

[49]. "China President Opens Turkmenistan Gas pipeline". http://www.news.bbc.co.uk/2/hi/8411204.stm . (Accessed on December 19, 2009).

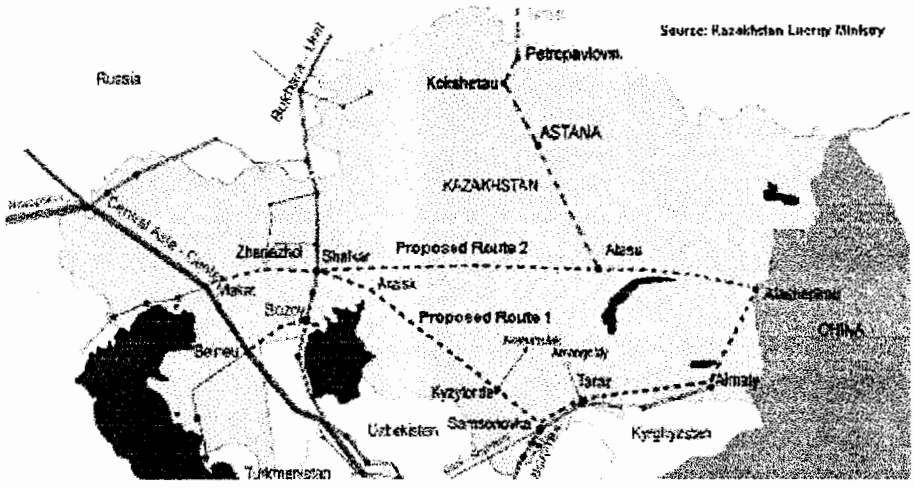
[50]. "China Extends Influence into Central Asia With Pipeline". http://uk.reuters.com/article/idukSGE5BDOBO20091214?sp=true . (Accessed on December 22. 2009).

[51]. "CNPC to Build Phase II Central Asia China Gas Pipeline", *Xinhua Economic News*. Nov 12, 2009, http://www.downstreamtoday.com/news/articles,aspx?aid=9253&ApxAutodetectcookiessupport=, (Accessed on December 23, 2009).

3.4- CENTER ASIA CENTER GAS PIPELINE SYSTEM

Technical features

Central Asia-Centre gas pipeline is amongst the oldest gas pipeline in Russian territory. This pipeline runs through the territory of Turkmenistan, Uzbekistan, Kazakhstan and Russia. This pipeline is divided into two parts. Eastern branch of Centre Asia Centre pipeline (CAC) and western branch of CAC.



Source: www.eia.doe.gov

Eastern branch includes phase 1, 2, 4, and 5 or Called CAC 1, 2, 4, and 5, While western branch consists of CAC 3. Eastern branch was constructed between 1969-1985 in different phases and western branch was constructed between 1972-75.[52]

---

[52]. Martha Bill Olcott, "International Gas Trade in Central Asia: Turkmenistan, Iran, Russia and Afghanistan", *James Baker III institute for Public Policy Energy Forum*, Working Paper no. 28 May 2004.

Major Share holders

Major shareholders in Central Asia Centre pipeline are

Gazprom

Turkmengas

Uzbekneftgaz

Kazmunaygaz.

Technical Features of Pipeline

Central Asia Center pipeline is 2000km long. It is the main export route of Central Asian gas resources to the world market. Almost all natural gas of Turkmenistan and Uzbekistan is exported through this pipeline. Natural gas is delivered from Daulatabad gas field of Turkmenistan toward north through this pipeline. This is the western branch of the Central Asia Center Pipeline. While eastern branch gets gas, supply from eastern Turkmen & southern Uzbek natural gas reservoirs and take it to Kazakhstan [53]. From where it enters into the Russian pipeline system. 90 percent of Turkmen gas is exported through Central Asia Center Pipeline's eastern branch. The western branch of this pipeline is technically backward.[54] Turkmenistan has shown its willingness to renovate western branch of this pipeline located in

---

[53]. For Details, *www.eia.doe.gov?energy/brief-Caspian-sea* , (Accessed on September 24, 2009).

[54]. "Energy Profile of Central Asia" *http://www.eoearth.org/article/energy_profile_of_central_asia#central_asia_center_pipeline* (Accessed on September 24, 2009).

Turkmenistan. Nevertheless, former Turkmen president also emphasized the need to reconstruct Kazakh and Uzbek section also. Turkmenistan is of the view that a poor technical condition of the pipeline has reduced its capacity.[55]That is why it could not achieve its export target of 1.41Tcf of gas in 2001, and exported only 1.16 Tcf of gas.

In order to renovate this pipeline the former president of Turkmenistan Saparmurat Niyazov proposed its reconstruction [56]. However, his proposal took another 4 year to materialize. In May 2007, Turkmen Russian and Kazak President signed a historic deal for restoration and renovation of pipeline as well as construction of a new route of pipeline from Turkmenistan to Russia via Kazakhstan. The capacity of pipeline is expected to increase to 12bln cubic meter per year in 2012.

3.5 - TRANS CASPIAN PIPELINE

As we know that Kazakhstan and Turkmenistan are exporting natural gas to Europe via Russian pipeline system. Existing pipeline system is not sufficient to cater growing gas exports of Turkmenistan and Kazakhstan to Europe. In order to fully explore the natural gas reserves of the region, US proposed a gas pipeline between Turkmenistan & Azerbaijan and it will not run across

---

[55]. For Details. www.globalinsight.com , (Accessed on September 25, 2009).

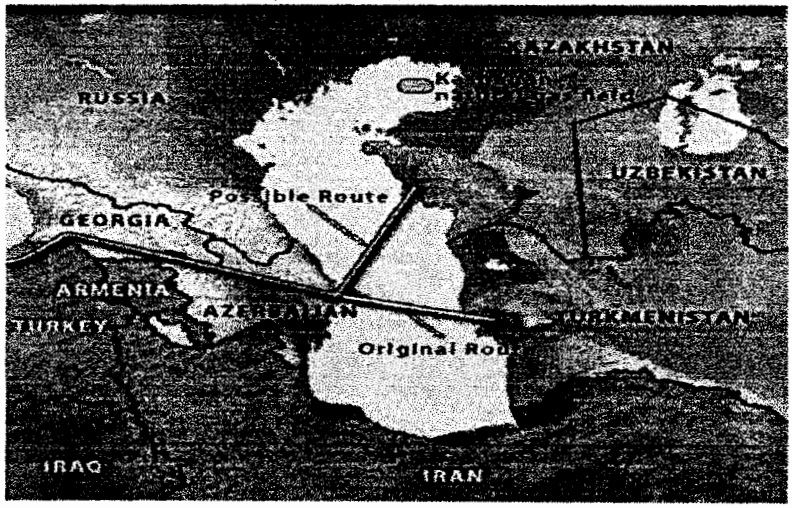
[56]. For Detail, www.forbes.com/field/afx/2007/05/13/afx3715292.html. (Accessed on October 1, 2009).

Russia. Instead, it will run beneath the Caspian Sea.[57] Kazakhstan's gas would also be exported via Turkmenistan through this pipeline. This project was proposed by U.S in 1996. United States has been insisting Turkmenistan for this project as this would be an east west pipeline. [58]This pipeline will export Turkmen gas reserve to Azerbaijan and further European market.

Technical features of the pipeline

Trans Caspian pipeline would be 1020 miles long and it will export up to 30 billion cubic meter gas per year from Turkmenistan via sub sea pipeline to Azerbaijan and to Turkey & further European market.

TRANSCASPIAN PIPELINE



Source: www.eia.doe.gov

[57] Shamil Midkhatovich Yenikeyeff, "Kazakhstan Gas Export Market & Export Routes", p. 77.

[58] For Details, *www.oilandglory.com/2009/07/nabucco-and-trans-caspian-requiem-for.html*, (Accessed on September 22, 2009).

The construction of this pipeline will cost 2-3 billion US $. US companies KBR & Granhevne undertook the feasibility study of this project. United States Trade and Development Agency USTDA provided funds for the feasibility study. This feasibility report includes its route, design, financial infrastructure and impact on environment[59]. An international Consortium was formed for the project, which includes

AMOCO,

GE Capital, Bechtell enterprises and

SHELL.[60]

Developments of the Project

Turkmenistan and Turkey signed an agreement in May 1999 for the 565Bcf gas trade per year from Turkmenistan to Turkey and export to Europe. In November 1999 Azerbaijan, Turkey, Georgia & Turkmenistan agreed to adopt some legal framework for the construction of proposed route of gas pipeline across Caspian.[61] In 2006, President Saparmurat Niyazov showed his consent for the construction of Trans Caspian gas pipeline project. However, the Russian opposition to the project made it impossible to reach an

---

59. "KBR to Study Feasibility of Trans Caspian Pipeline", Downstream Today, April 14, 2008.

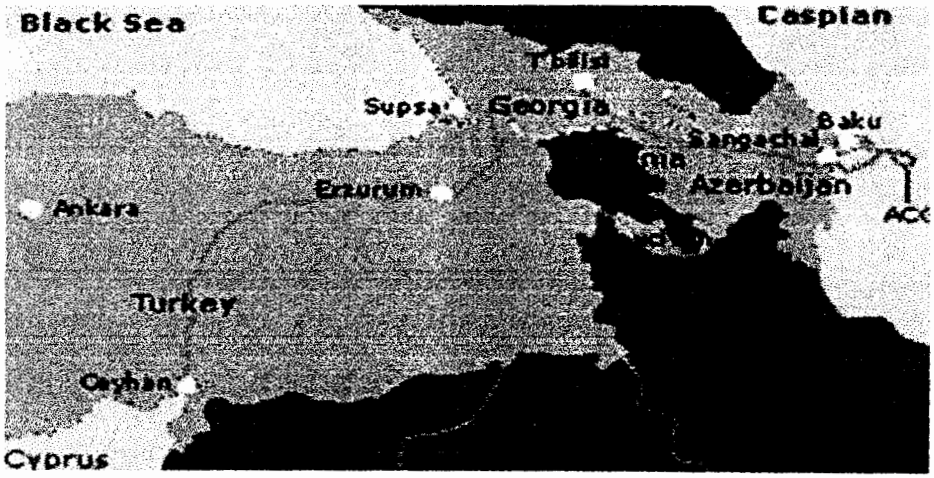
60. "Trans Caspian Gas Pipeline", *Case Study, Center for Energy Economics, Bureau of Economic, Geology, Jackson school of Geo Sciences.*

61. For Details, www.hri.org/news/balkans/rferl/1999/99-11-19-rferl.html#13, (Accessed on. September 27, 2009).

agreement. Later on Niyazov's successor, Garbanguly Berdimukhammadov has shown his interest in the pipeline.

3.6 – BAKU-TBLISI-CEYHAN PIPELINE

Baku-Tbilisi- Ceyhan pipeline is an oil import pipeline, which will carry Caspian oil to the world market. The untapped oil reserves of the Caspian are of utmost importance for Central Asia and Europe. However, during Soviet era these deposits could not be explored. After the collapse of Soviet Union and independence of Central Asian states western oil, exploration companies showed their interest to invest in Caspian oil projects. Especially Turkey was interested in the Caspian oil export to Europe[62].



Source www.eia.doe.gov

Therefore, discussion started about a pipeline from Caspian to Europe in 1990. Russia, Iran, Azerbaijan, Georgia and Turkey were involved in the

[62].For Details. www.btc.com.tr/eng/project.html , (Accessed on November 2, 2009).

negotiations. These talks could not succeed due to Russian concern over the status of Caspian Sea and U.S sanction against Iran. After a long debate, Russia and Iran withdrew from the negotiations. Nevertheless, Azerbaijan, Turkey and Georgia decided to move forward.

A German engineering company PLE Engineering GmbH conducted the feasibility and environmental audit study of the project funded by World Bank. This feasibility report was completed in 1998.[63] After lengthy negotiations, all three countries signed a memorandum of understanding on May 15, 1998 for the formation of working groups.

After the completion of feasibility study, President of Azerbaijan, Turkey and Georgia signed an agreement in Istanbul on November 18, 1999 at the Summit of OSCE (Organization of Security and Cooperation in Europe).[64] This agreement was approved by the parliaments of three states in 2000.

Share Holders of the Project

In October 2000, SOCAR and several other international companies formed a consortium to implement the Baku-Tiblisi-Ceyhan project. This consortium is led by BP (British petroleum) the main operator of the pipeline. The shareholders of the project are as follows.

BP (United Kingdom) 30.1 %

SOCAR state oil company of Azerbaijan 25%

---

[63]. *ibid*

[64]. For Detail. http://www.azerb.com/az_btc.html , (Accessed on November 2, 2009).

CHEVRON (USA) 8.90%

STATE OIL (Norway) 8.71%

Turkey Petrolleri Anonim Ortaki (TPAO) (Turkey) 6053%

ENI/AGIP (Italy) 5.0%

TOTAL (France) 5.0%

ITOCHI (Japan) 3.4%

INPEX (Japan) 2.50%

CONOCO PHILLIPS (USA) 2.50%

AMERADA HESS (USA) 2.36% [65]

BTC Company was founded in September 2002 in a formal inauguration ceremony attended by presidents of Azerbaijan, Georgia, and Turkey. US Energy Secretary was also present at the occasion.[66]

Technical Features

Baku-Tblisi-Ceyhan pipeline is 1774 km long pipeline. It is considered one of the largest pipelines of the world. Out of 1774 km length, 1094 km area is in Turkey.[67] 440km in Azerbaijan and 244.5 km in Georgia.

BTC is a crude oil pipeline. It starts from Sangchal terminal in Baku and extend towards Georgia, passing south of Tbilisi.[68] It enters in Turkey. This

---

[65]. For Detail, http://www.bp.com/genericarticle.do?categoryId=906615&contentId=7020655 , (Accessed on November 3, 2009).

[66]. "Caspian Pipeline Dream Becomes a Reality". http://news.bbc.co.uk/2/hi/europe/226311.stm , (Accessed on November 5, 2009).

[67]. For Detail, www.btc.com.tr/eng/project.html#teknik. (Accessed on November 5, 2009).

pipeline ends at the Mediterranean coast of Ceyhan in Turkey. Life of this pipeline is expected to be 40 years and its capacity is 1 million barrels of oil per day. Nevertheless, its ultimate capacity will be 10 million barrels of oil. This pipeline is of 42 inches diameter.

World Bank's International Finance Commission and European Bank for Reconstruction and Development sponsored the project [69]. The expected cost of the pipeline is approximately $ 3.6 billion and international Finance Commission contributed 125 million dollars. BTC was officially inaugurated in May 2005. This opening ceremony was attended by president of Kazakhstan Nur Sultan Nazarbayev, President Ilham Alaiyev of Azerbaijan, President of Georgia Mikhail Shakasvili and Turkish president Ahmet Necdet Sezer, along with US Secretary of Energy Samuel Bodman.[70]Oil pumping started in May 2005, and it reached Ceyhan in May 2006[71].

3.7 - NABUCCO PIPELINE

Nabucco is a proposed gas pipeline to export gas across Europe. It will carry gas from Turkey to Bulgaria, Romania and Hungry and Austria. This project was put forward as an alternate for Europe's gas supply that comes from

---

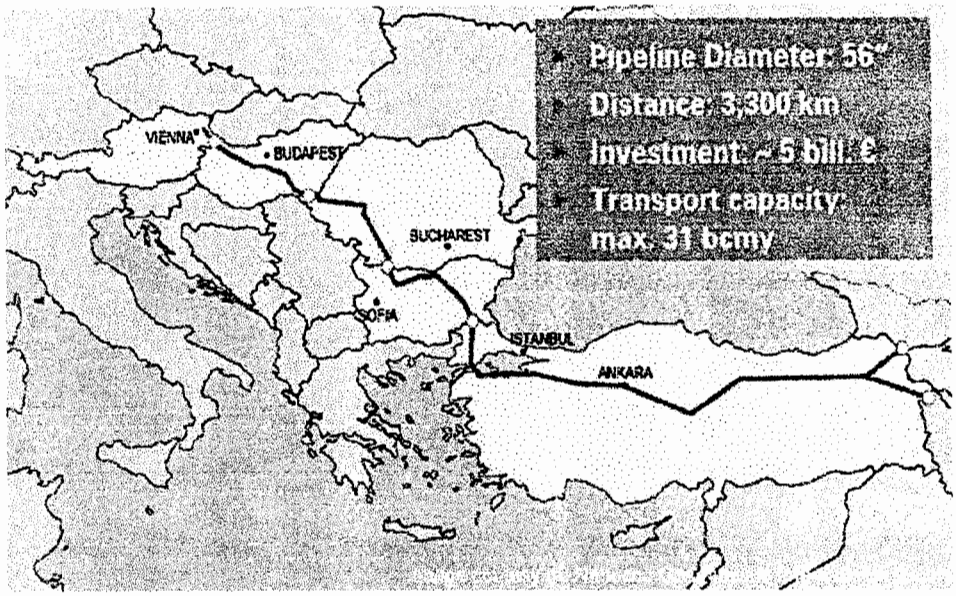
[68]. "BTC Project", http://www.ifc.org/btc, (Accessed on November 6, 2009).

[69]. *Ibid.*

[70]. Jean Christopher. "Regional Leaders Inaugurate Oil Pipeline Amid Environmental Concerns". http://www.rferl.org/content/article/1062066.html, (Accessed on December 15, 2009).

[71]. "Giant Caspian Oil Pipeline Opens" http://www.news.bbc.co.uk/2/hi/business/4577497.stm, (Accessed on December 14, 2009).

Russia. This pipeline would also receive gas supply from other countries such as Iran, Kazakhstan, Egypt, Turkmenistan, Syria, Iraq and Azerbaijan.



Source: Nabucco Pipeline Project International GmbH

History of the project

In order to reduce European gas dependence over Russia, this project was first considered in 2002. When, Turkish company BOTAS, Bulgarian company BulgarGaz, MOL of Hungry, Transgaz of Romania and OMV of Austria signed an agreement to cooperate for the construction of this project [72]. Feasibility study of the project was started in 2003. European Commision provided financial support for the feasibility study. Nabucco project was finalized and signed by five companies mentioned above on June 20, 2006 in

[72]. For Details, *http://www.nabucco-pipeline.com/press-public-news/q-a/q-ahtml.* (Accessed on December 3, 2009).

Vienna. European Commission announced its decision to nominate Dutch foreign minister Jozia Van Aarten as the project coordinator of the Nabucco.[73] European investment Bank and European Bank for Reconstruction & Development announced to provide financial assistance to Nabucco project. This was agreed upon in Nabucco Summit in Budapest in January 2009.[74]

Technical Features

Nabucco pipeline is a 3,300 km long pipeline. It starts at two points from Turkish Georgian and Turkish Iranian border. It passes through Bulgaria, Romania Hungry and ends in Austria.[75] 2000 km of this pipeline will be constructed in Turkey, 400 km in Bulgaria, 400 km in Romania, 390 km in Hungry and 46 km in Austria.

Initial capacity of this pipeline will be between 4.5 and 13 billion cubic meter per year and it will be increased to maximum capacity of 31 bcm per year.

Although this pipeline does not pass through Central Asian states but its main gas supplies will come from Azerbaijan and later on from Turkmenistan and Kazakhstan will join it after the construction of Trans Caspian pipeline.

---

[73]. "Hopes Revived for Stalled Nabucco Pipeline" Published on Monday September 17, 2007. *http://www.euroactive.com/en/energy/hopes-recieved-stalled-nabucco-pipeline/article-166800*. (Accessed on December 4, 2009).

[74].The Declaration of Budapest Nabucco Summit, *http://www.mfa.gov.hu/kum/en/bal/actualities/spokesman_statements/nabucco_declaration_090127.htm*. (Accessed on December 13, 2009).

[75]. "Project Description/Pipeline Route" ***http;www.nabucco-pipeline.com/project/project-description-pipeline-rout-description.html.*** (Accessed on December 16, 2009).

Share Holders of the Project

Five companies initially formed the Nabucco consortium.

OMV Austria 16.67%

MOL Hungry 16.67 %

TransGaz Romania 16.67%

BulgarGaz Bulgaria 16.67 %

BOTAS Turkey 16.67%

RWE Germany 16.67%[76]

Initially its construction was to be started in 2009 but later on, it was delayed until 2010. It will be completed in 2014.[77] Its construction cost is around 7.9 billion Euros.

---

[76].For Details, "Nabucco Pipeline Share Holders" *http://www.nabucco-pipeline.com/company/shareholders7/table-of-content-shareholder.html*

[77]. "Nabucco Construction Pushed Back to 2010", http://downstreamtoday.com/news/articles.aspx?a_id=8858 . (Accessed on December 14, 2009).

Chapter-4

ENERGY POLITICS: PIPELINES TO THE EAST

Central Asia is situated at the crossroad of Asia, Europe and the Middle East. Once situated along the main trade route between East and West, it has been a backwater for over a century, serving to link more strategically pressing areas despite possessing some of the world's largest reserves of oil, gas and metals. Countries in Central Asia have endured autocratic, repressive governments' exploitation of that natural wealth and the resulting instability. An uncertain investment climate in some states of the region, geopolitical jostling between the major powers, and a tension between political and business interests means the future development of the region's abundant energy resources is difficult to predict. What is certain is that the domestic and international political context will play a crucial role in the development of the region's energy sector. With both East and West seeking to secure reliable and affordable energy, the economic and political stakes in the energy game are as high as ever.

Pipeline politics in central Asia and Caspian region has gathered world wide attention. It is the purpose of this Chapter to examine how the foreign powers are playing this game in Central Asia, by looking at how each player pursues a different strategy in terms of the way oil and gas deposits have to be

explored and distributed. Among these resources natural gas resources are mostly located at the eastern side of Caspian Sea in Turkmenistan, Kazakhstan and Uzbekistan.[78]

Among these states, Turkmenistan is the world's fourth largest gas producer. Despite of their rich energy resources these states have not been able to develop their economies significantly. And the reason is their poor or no infrastructure for the export of energy resources to European and Asian markets. On the western side of Caspian Azerbaijan has been a big oil producer since early 19th century.[79] Azerbaijan's proven oil reserves are approximately between 7 to 13 billion barrels. SOCAR is the largest petroleum company. Azerbaijan's most of the production comes from the offshore reserves in the Caspian Sea.[80] As far as gas is concerned Azerbaijan's gas reserves are around 30 trillion cubic feet. Kazakhstan's proven oil reserves are between 9 to 40 billion barrels and its gas reserves are estimated at 65 to 100 trillion cubic feet.[81] Turkmenistan does not posses rich oil resources its oil reserves are approximately 546 billion barrels.[82] But its

---

78. "Caspian Sea Region: Natural Gas Export Options" www.eia.doe.gov , July 2002, (Accessed on December 23, 2009).

79. Mir Yousaf Mir Babayev, "Azerbaijan's Oil History: A chronology leading up to the Soviet Era".

80. "Energy Profile of Azerbaijan" www.eia.doe.gov, (Accessed on December 3, 2009).

81. *ibid*

82. "Energy Profile of Central Asia" www.eoearth.org/article/energy_profile_of_central_Asia, (Accessed on December 23, 2009).

Central Asian states. This route also fulfills the US and European interests who are constantly striving to lessen their dependence upon Middle Eastern energy resources.[84] Especially after the 1970's oil crisis, this has been a highly debated issue in USA. An important alternate for US is Central Asian region. Nevertheless, it is landlocked. In order to fully exploit the Central Asian energy resources, US proposed the plan of Trans Afghan pipeline. There were two factors behind this proposal.

1- To reduce dependence of Central Asian states over Russian pipeline system

2- To avoid possible Iranian Pipeline route for Central Asian energy trade.

For these two objectives, one of the best options available was Trans Afghan pipeline. United States animosity with Iran is a major factor behind this project. Clinton Administration proposed Trans Afghan pipeline project with great support. An Argentinean firm Bridas proposed the project in 1991 when it started negotiations with Turkmenistan. In 1993, the CEO of Bridas Bulgheroni stared his efforts to gather support for the construction of 1400 km long pipeline from the southeastern Turkmenistan across Afghanistan to Pakistan. However, in 1995 Turkmenistan government signed an agreement with US Company UNOCAL. A memorandum of understanding for this

---

[84]. Martha Bill Olcott. "Kazakhstan: Unfulfilled Promise" *Carnegie Endowment,* (Washington) Paper 2002, pp. 51-52.

project was signed between UNOCAL, DELTA of Saudi Arabia, and TURKMENGAZ of Turkmenistan & GAZPROM of Russia. A formal agreement for the construction of this project was signed in October 1997. It was expected that project would complete in 2001. A possible extension of 640 km to India was also part of this agreement. Daulatabad gas field would have been the major source of gas supply for the project. Moreover, if completed this project would have been a source of income for the poor state of Turkmenistan. However, this project could not materialize due to geo strategic situation of the region and clash of interests between different interest holders.

A problem accrued when Pakistan & UNOCAL decided themselves about the price of gas and transit fee to Afghanistan.[85] Taliban government in Afghanistan was not consulted over transit fee issue. Taliban did not endorse the decision. Later on issue became further complicated when Taliban announced to stop future negotiations with UNOCAL.[86]

Despite this, a consortium was formed in October 1997. In reaction to 1996 agreement of gas price and transit fee, Taliban signed an agreement with BRIDAS. UNOCAL had never negotiated with Taliban government, nor did they have a formal agreement with Taliban government. Rather they

---

[85] Martha Bill Olcott. "*International Gas Trade in Central Asia, Turkmenistan, Iran, Russia, and Afghanistan*", P. 18.

[86] "Turkmenistan. Afghanistan, Pipeline", *Petroleum Finance Company ltd*, October, 1997.

maintained contacts with different members of Taliban and other competing groups in Afghanistan.[87] UNOCAL announced to delay the project in 1998. There were many factors involved in this decision of UNOCAL.

i- Unocal had concems about the increasing terrorist activities of Al-Qaeda in Afghanistan and Taliban's support to Al-Qaeda.

ii- US never recognized Taliban govemment in Afghanistan. Although there was a debate in Clinton govemment for the recognition of Taliban govemment.

iii- UNOCAL exerted some pressure over Clinton Administration for this issue. However, it did not work. Without the US govemment's recognition, the success of the project was in doubt. Growing tension between Taliban and US made it very difficult.

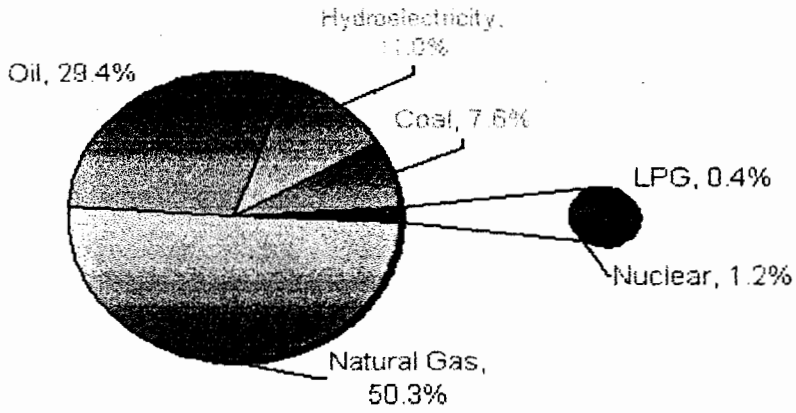
Secondly, Pakistan who was the biggest supporter of the project lost its interest to some extent due to some new gas fields discoveries in the country. When this project was planned, Pakistan was concemed about the growing demand of gas in the country. Gas comprises more than 50 % of Pakistan's energy consumption. Pakistan's gas demand was expected to increase to 31 bcm per day by 2010.[88]

---

[87] For Detail. http://www.unocal.com/uc/news/98/centgas.htm , (Accessed on January 12, 2010).

[88]. "Country Analysis Brief Pakistan" www.eia.doe.gov, (Accessed on December 21, 2009).

However, the discovery of new gas fields in Pakistan raised the question of profitability of Trans Afghan pipeline project.



Pakistan Energy consumption, Source: www.eoearth.com

On the other hand, Indian participation in the project became more important not only to increase the profit margin of the project through vast Indian market but also to cater the growing energy deficiency in India. However, the lack of trust between Pakistan and Indian government prevented the Indian government's decision to participate in the project.

It was expected that the project would help normalize the relations between Pakistan and India and ultimately there would be breakthrough over Kashmir issue. However, Pakistan India relations further deteriorated in 1998 after nuclear tests and in 1999 after Kargil war. That is why India

started considering other options, which have less security risks involved. Once again, a regional rivalry hampered the development of Turkmenistan's energy sector.

This project was revived after the US led coalition attacked Afghanistan in October 2001. US started negotiations with Pakistan to revive the project. For this purpose, presidents of Pakistan, Afghanistan and Turkmenistan met in Islamabad to sign a memorandum of understanding for a gas pipeline project.[89] Different working groups were formed to discuss different aspects of the pipeline. After obtaining their recommendations finally, the Trans Afghan pipeline project was signed by the head of three states in a joint meeting in December 2002.[90] It was also decided during the meeting that a consortium would be formed for the project. Technical, financial and security matters would be considered. Asian Development Bank started feasibility study of the project with $1.5 million. It was expected that the construction work would start as soon as the feasibility study is completed as situation becomes normal in Afghanistan.

However, it remained a dream and construction work could not start in 2004 due to worsening security situation in Afghanistan, nevertheless hopes remained alive for the project. US ambassador to Turkmenistan

---

[89]. "Afghanistan, Pakistan and Turkmenistan Sign Gas Pipeline", Study Memo, *Alexander's Gas and Oil Journal*, vol.7, issue no. 13, June, 2002.

[90]. "Trans Afghan Pipeline Project Moving Forward, Faces Risks", online www.Eurasianet.org, December 2002. (Accessed on January 7, 2010).

Tracey Anne Jacobson revealed in a statement after meeting Turkmen president Saparmurat Niyazov in January 2005 that US companies were still interested in Trans Afghan pipeline[91]. He expressed the hope that construction would start in 2006. Afghan situation again become an obstacle.

Discussion again opened in Islamabad to discuss TAP pipeline in 2008.[92] The Trans Afghan Project is of paramount importance for Turkmenistan which is waiting for badly needed revenues through its natural gas export. This pipeline would also help in minimizing Turkmen dependence on Russian pipeline system.

Turkmenistan would be the most beneficial country from Trans Afghan pipeline, because TAP would open the vast natural gas resources of Turkmenistan for export to international consumers. Secondly, Turkmenistan would be able to get better price of gas that it gets from Russia whose pipeline system is the only way out for the Turkmen gas.[93] Russia buys Turkmen gas at a very low price than international market and sells it at a high price to Europe. Success of this plan also depends upon

---

91. "US companies eye Trans Afghan Pipeline", www.energybulletin.net, January 18, 2005. (Accessed on January 11, 2010).

92. Bruce Pannier. "Central Asia: Trans Afghan Pipeline Discussion Opens in Islamabad", www.rferl.org, April, 2008. (Accessed on January 11, 2010).

93. David G Victor, *Diversifying Russian Gas Export to Europe*, p. 214.

India's participation in this pipeline project. India would be a bigger market than Pakistan for Turkmen gas. This would increase the profitability for Turkmenistan.

Another point of importance of TAP for Turkmenistan is the sharp increase in gas prices. Prices of natural gas in Europe was increased to 300 dollars per thousand cubic meter, whereas Russia pays 130 dollar to Turkmenistan for 1000 cubic meter gas and sells it at a higher price to Europe. In this situation, Turkmenistan is interested in expanding its natural gas trade system through construction of new pipelines to capture new markets. South Asia is one such market. However, in a volatile environment such as Afghanistan, the realization of TAP project seems to be difficult case and most affected party would be Turkmenistan whose economy and future development depends on energy resource and their export. Now what is needed is a stable Afghanistan where peace and security are ensured. A comprehensive military political and economic infrastructure is required to realize the dream of Turkmenistan Afghanistan and Pakistan pipeline. 830 km of TAP pipeline will run across Afghanistan.[94] Absence of security would endanger the huge international investment of about 4 to 8 billion US$.[95]

---

[94]. "Trans Afghan Pipeline: Will Ambitions Convert Into Reality",
http://www.Turkishweekly.net/columnist/2903/trans-afghan-pipeline-will-ambitious-convert-into-reality.html, (Accessed on January 17, 2010).

[95]. Baber Shah. "Revival of Trans Afghan Pipeline Project"
www.issi.org.pk/journal/2003_files/no_1/articles/79_htm. (Accessed on January 7, 2010).

4.2 - IRAN-TURKMENISTAN-TURKEY PIPELINE & US IRAN RIVALRY

Central Asian states are landlocked. They need transit routes for the trade of their oil and gas. For this purpose one of the options available is the Iranian route.

KORPHEDZE KURT KUI PIPELINE

Iran and Turkmenistan decided to construct an exclusive pipeline system to export Turkmen gas to the Iranian market. For this purpose Korphedze to Kurt Kui pipeline was constructed in 1997.[96] It was a 1, 420 mm diameter pipeline. It would be a part of 1, 400 km pipeline from Iran via Turkmenistan to Turkey. This pipeline however is a small one with annual capacity of 282 billion cubic feet 28bcm gas per year would travel through this pipeline across Iran, Turkmenistan & Turkey. A major objective of this comprehensive strategy was that of meeting growing gas consumption in Turkey. [97] Korphedze Kurt kui pipeline is a one of the first Turkmen link outside Russian pipeline system. And it is part of a greater linkage or greater pipeline system. The idea of this huge plan was initiated by former U.S Secretary of

---

[96]. Martha Bill Olcott, "*International Gas Trade in Central Asia: Turkmenistan Iran, Russia and Afghanistan, Geo Politics of Gas*" 2004.

[97]. Ira Joseph, "Gas Exports: Stranded Resources in a Unique Predicament" *James A Baker Institute*, A working Paper, April, 1998

State Alexander Haig.[98] The plan was supported by Turkmenistan, and Iran. Turkmenistan was especially keen for the project and an international joint stock company was formed for the construction of this project. This international joint stock company Turkmenistan Transcontinental pipeline had the support of World Bank and other international financial institutions. But things took a sudden change in 1996 when Turkmen government withdrew from the project. The main reason for this with drew was US Iran conflict. As United States does not support implementing such project which involves Iran.

Due to international sanctions it was not possible to construct major pipeline routes. That is why Iran decided to construct a modest pipeline to extend its gas trade. Negotiations again started between Turkmenistan & Iran for a pipeline project. Both countries agreed to construct Korphedze Kurt Kui pipeline of 200 km and 1000 diameter.[99] However, it was part of future transcontinental pipeline that will be more than 3200 km and will connect Turkmen gas reserves to Iran and Turkey. Iran provided with 90% of the construction cost of the pipeline while Turkmenistan had to pay only 10 % of the construction cost while remaining cost was to be paid back through gas supplies during three years period. Its ultimate capacity would be 13 bcm but

---

[98]..David B Ottoway, Dan Morgan. "Gas Pipeline Bounces Between Agendas" *Washington Post*, October 1998,

[99]. David G victor, Amy Jaffe, Natural Gas and Geo Politics 1990-2040, p. 213.

after the opening of this pipeline in 1997, its capacity has decreased or it has not achieved its goal yet.

Due to the low cost of construction for this pipeline, Iranian considered this project as an economic aid given to a newly independent state that needs such aid and investment to develop its resources. Iran is a regional competitor for dominance over energy resources and routes [100]. This small pipeline was not enough for the Iranian success rather Iran used Turkmenistan as a tool for the successful accomplishment of its dream.

Iran Turkmenistan energy links increased over the year. Iran increased its contacts with Ashgabat and both countries agreed to increase the capacity of the pipeline up to 30 bcm to carry this gas towards Turkey from Daulatabad gas fields to Turkish market. The amount of gas received through Korpedze Kurt Kui was to be used in Iran and same amount of Iranian gas is swapped to Turkey.

Turkmenistan had some other options available for its gas. One of them is Afghanistan route but the reason for giving preference to Iranian route was Iran's ability to sponsor the project that was not possible in Afghanistan's case. This pipeline was not the sphere of Iranian interest only. Global powers were also interested in the project. US Iran rivalry is a great hurdle in Iranian ambitions for the dominance over Turkmen and other Central Asian energy

---

[100]. Guli Yuldasheva. "Geo Politics of Central Asia in the Context of Iranian Factor", *Caucasus Review of International Affairs*, vol. 2, (3) Summer 2008.

resources. US imposed sanctions over Iran and Libya in 1996 and renewed them in 2001.[101] This sanction Act does not allow any foreign investment of more than 40 million in the energy sector of these states. Due to these sanctions, many important international companies kept themselves away from the projects despite of their interest in pipeline projects in these states. Royal Ducth Shell quickly expressed its interest in the project, as did Snamprogetti Italy and GDF. However, their interest made the project vulnerable to US sanctions.

Shell Company submitted a proposal in 1997 for the construction of a natural gas pipeline to the Turkmen President Niyazov.[102] This time, Iran Turkey and Turkmenistan put the pressure aside and signed an agreement with Royal Dutch Shell for the project. Shell started feasibility study of the project in 1998.

It was a 3800 km gas pipeline starting from Shatlyk gas field in northern Iran, on to Dogubayazid in Turkey. Turkmen President openly endorsed the participation of Shell in the project. However, Shell decided to shift its office from Ashgabat in 2003.[103] Shell decision came after having trouble in

---

[101]. For Details, Official website of US State Department. www.state.gov/globalterrorism Iranlib.html. (Accessed on October 24, 2009).

[102]. Charles Van Der Leeuw. *Oil & gas in the Caucasus and Caspian: A History*, 2001, p. 130.

[103]. For Detail, www.eia.goe.dov/emeu/cabs/chm 2003.html (Accessed on December 3, 2009).

business in Turkmenistan. Iran could be a much bigger market for Shell with more profit margin available and reason able environment to work.

US Iran Conflict

Initially it looked that United States would support the project as it was the part of US Caspian region policy during Clinton era to support multiple pipeline across the region. When Korpedzhe Kurt Kui project was initiated, it was understood that United States opposition for a major project would not be unavoidable so a small project was started. It was assumed that United States would not oppose this project, as it was not aimed at developing Iranian gas industry. Rather Iran would be used as a transit route. Turkey successfully argued the case. They were of the view that there would be three separate pipelines built. Two in Turkey and one in Iran. Iranian pipeline would start from Tabriz and reach at Turkish border. It will be 270 km long pipeline. Iran itself sponsored the project financially. The first Turkish pipeline will be a 300 km long route. It will start from Iranian border and will end at Erzurum Turkey. Second phase would be from Erzurum to Ankara. This would be a long pipeline, which would cover an area around 874 km.[104] First phase will cost 117.5 million US $ and second phase would cost 500 billion US$. Turkish pipelines would be built by local and international companies' participation through bids. Turkmen gas would be delivered through old

[104]. *Alexander's Gas & Oil Connection*, vol. 2 issue no. 15, May 26, 1997.

pipelines and Iran as transit route would deliver gas to Turkey. In 2001, gas deliveries started but this project could not retain its importance as Turkey found more options for gas trade. US opposition for Iranian pipelines also grew after 9/11.

Later on Iran and Turkmenistan decided to build another pipeline in 2009. This decision came after Turkmen Russian clash over pipeline blast in March 2009 when Russia closed its pipeline for Turkmen gas. In order to minimize Russian influence over Turkmen energy resources the decision for this pipeline was made. This pipeline is considered as a second phase of Korpedzhe Kurt Kui pipeline.[105] The pipeline was completed and launched on January 6, 2010.[106] Iranian President and his Turkmen counterpart inaugurated the pipeline. Its initial capacity will rise to 20 billion cubic meters soon. The development and politics over Korpedzhe Kurt Kui pipeline clearly shows that the construction of this pipeline has competing interests.[107] This pipeline falls under the Iranian route available to Central Asian states among many routes for oil and gas trade to world market. However, this pipeline was never launched with the objective of developing the rich energy resources of financially poor country Turkmenistan. Gas provides more than 50% of

---

[105]. For Detail. *www.rferl.org/contents/second_Iran_Turkmen_pipeline1921250.html.* (Accessed on January 10, 2010).

[106]. For Details. *www.worldbulletin.net/news_detail.php?id=52265* , (Accessed on January 8, 2010).

[107]. Hooman Peimani, *"The Caspian Pipeline Dilemma: Political Games and Economic Losses*, P, 38-40.

This upsurge of energy facilitated the Chinese penetration towards Central Asia. In 1997, when Chinese National Petroleum won two tenders in Kazakhstan beating AMOCO, TEXACO, and UNOCAL some of the world's largest petroleum Companies. This victory echoed China's entry in the region. China announced to invest US $ 4 billion for next 20 years. The construction of a 3000km long pipeline from Kazakhstan to China was also a part of this plan. China's National Petroleum Company

obtained the rights of exploring Kazakhstan's second largest oil field.[113]

Chinese government continued its negotiations with other central Asian countries for the exploration of energy reserves and construction of pipeline. China and Turkmenistan signed a pipeline deal for 30 billion cubic meters of gas for 30 years. The deal was signed during Turkmen president Niyazov's visit to China.[114] The biggest reason for signing this contract on Turkmenistan's part was their growing dissatisfaction in their gas trade with Russia. Turkmen gas exports to Russia served Russia's economic interest instead of Turkmenistan. Russia pays below market level price to Turkmenistan. Turkmenistan does not have any other option but to build other

---

[113]. Jhon Chan. "China Pushes into Central Asia for Oil and Gas". http://www.wsws.org/articles/2001/Jan2001/oil-j03shtml. (Accessed on January 17, 2010).

[114]. Denial Kimmage. "Central Asia: Turkmenistan China Pipeline Project has Far Reaching Implications. www.rferl.org/content/article/1067535.html. April 10, 2006. (Accessed on January 11, 2010.

pipeline routes outside Russian influence and territory. One of such routes for Turkmenistan could be China.

Many experts showed concern over Turkmen's ability to provide such a huge volume of gas. Besides that length and difficult terrain of the pipeline route was raising doubts among the energy experts of the world.[115] However, Ashgabat's intensions were clear that it would continue to seek higher prices for its gas outside the traditional trade routes. On Kazakhstan part, its desire to enter in world oil market is a big reason behind its growing cooperation in pipeline sphere. Chinese drive into Central Asia for energy supplies can be seen from many aspects.

i- China is situated far away from energy hub of the world

ii- Its demand for gas and oil is increasing faster than supply.[116] And

iii- To secure future energy supply it is very important to increase its strategic interest and hold in the Central Asian region.

Chinese penetration in the region drew considerable attention of Russia and US. Chinese involvement in Central Asia's energy affairs especially in the construction of pipelines was conceived as a threat to traditional Russian influence and growing US involvement and its strategic interests.

---

[115]. *ibid*

[116] Gal Luft. *Energy Security Challenges For The 21st Century: A Reference Hand Book*, p. 191-192.

Chinese agreements with Turkmenistan and Kazakhstan for Oil & gas pipeline were perceived as menace to US sponsored pipelines.[117]As Chinese project increased vulnerability of Turkmenistan to fulfill its commitment for gas, supply to Europe through Nabucco. This pipeline is the longest pipeline of the world. It would pass through the most difficult geographical terrain and its demand for a huge volume of gas. In order to secure its strategic position by constructing pipeline first China resolved its border disputes with Central Asia republics. China's policy has been of silent penetration in the region. It has focused on smaller issue for instance border demarcation and trade. This approach shows that it was political ambitions, which ultimately led China to resolve political dispute to fulfill economic interests and strategic priorities. On the other hand, Kazakhstan tried to create balance in its policy towards China and Russia. Kazakhstan's geographic location demands a careful policy.[118] As Israeli Prime Minister pointed out "Kazakhstan is situated between two elephants" Russia and China.[119] In addition, Kazakhstan does not want to disturb its relations with Russia due to its growing energy relations with China. Moreover, Kazakhstan is not in a position to annoy Russia for its traditional control over Kazakhstan and Central Asia's political

---

[117] "China-Turkmenistan Pipeline Can Create Threats to Nabucco: US Experts", *Tehran Times*, December 21, 2009.

[118]. Gary K Bertsch. *Crossroads and Conflicts: Security and Foreign Policy in the Caucasus and Central Asia*, (New York: Routledge Publishers, 2000), p. 252.

[119]. Michael P Croissant, Bulent Aras, *Oil and geopolitics in the Caspian Sea Region*, p. 205.

China's involvement in Central Asia's energy resources has added to US challenges in the region.[122] Russia's silence over China pipeline indicates the commonality of some Russian and Chinese objectives and interests in the face of US threat. As US in considered as an outside power in the region. That is why China and Russia are cooperating in Shanghai Cooperation Organization (SCO) and in energy policy. Since then despite different and even competing goals, the relationship between the two powers have matured to a point where they are actually able to counter the sole super power, United States. Initially, US did not criticize China's agreement with Central Asian states for pipelines in the region, as it perceived China as the potential competitor for breaking Russia's hold. This is the same approach Russia had in case of US, to avoid its penetration in the region. However, the inauguration of China Turkmenistan and China Kazakhstan pipelines in December 2009, has created threats for US objective to minimize European dependence on Russia for gas. As 70 %, Turkmen gas is exported through Russian pipelines. Now this volume may decrease in future due to Chinese pipeline.

To sum up a severe competition is going on in the region to establish ones hold over the rich energy resources of poor underdeveloped region of Central Asia.

---

[122]. Vincent Gagnon Lefebvre. "Geopolitical Rivalry in Central Asia: The New Great Game. Between Russia China and United States. Online Available at, http://international-politics.suite101.com/article.cfm/geopolitical_rivalry_in_central_asia , July 4, 2008. (Accessed on November 6, 2009).

Chapter-5

PIPELINES TO THE WEST

In the energy and pipeline politics, a very important issue besides weakening Russian monopoly over the pipelines in the region is growing demand of gas in European market. Europe has been a big consumer of Russian gas for a long time. Fall of Soviet Union opened up a new market for European customers. Central Asian gas and oil resources became a vital source of energy for increasing European demand. It also provided them with an opportunity to find an altemate of Russian gas. However, the major difficulty in this regard was the absence of direct pipelines from Central Asia. All pipelines to Europe run across Russian territory. After 1991, US policy in Central Asia has focused on building new pipelines that bypass Russia. This would not only help reducing Russian control over the region moreover, it would reduce European dependence over Russian pipeline. In this struggle, EU and U.S proposed some new projects. While Russia made efforts to counter this US policy by expanding its already established pipeline system. Before proceeding to pipelines linking Central Asian energy resources to Europe, first we have a look at the Russian pipelines that have been in use for quite a long time for exporting gas to Europe.

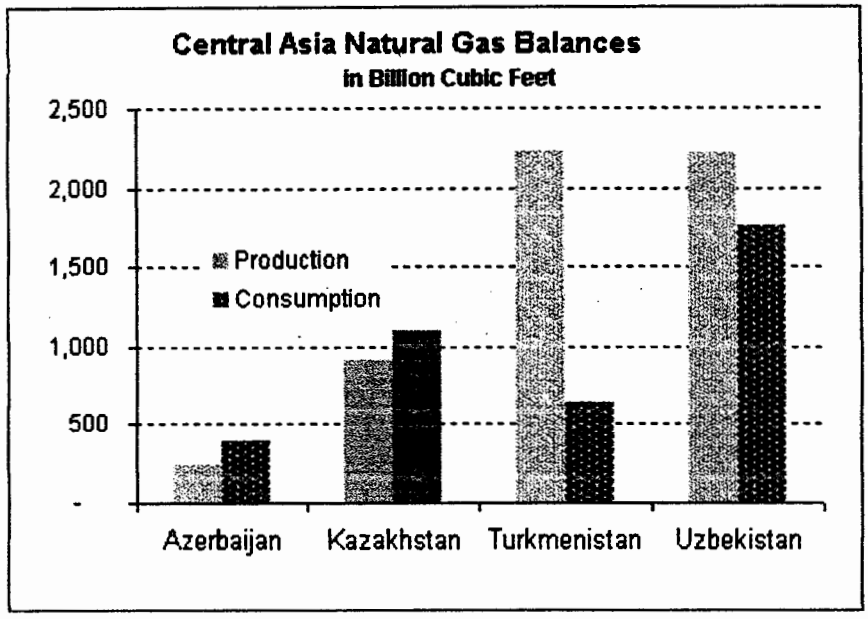
5.1 - CENTRAL ASIA CENTER PIPELINE AND RUSSIAN MONOPOLY

Central Asian energy reserves have been critical to Russian domination of the European gas market. Uzbekistan was the largest gas producer during Soviet era. Its gas was exported to Europe through Central Asia Center pipeline. Kazakhstan's oil and Turkmenistan's gas were also exported through this Russian pipeline system. More than 70% of Turkmen gas is still exported through Central Asia Center pipeline.[123] This system was developed between 1960 and 1980 in a north south pattern. All pipelines that Russia built were moving north into Russia and avoiding any route that gives a direct exit to pipeline without entering in Russia. Russia has always neglected east west route.

Central Asia Center pipeline is divided in five branches. CAC 1, CAC 2, 4 and 5 are part of eastern branch, while CAC 3 is western branch of the pipeline. Its eastern branch deliver Turkmen natural gas to North West and from southern Uzbekistan to North West, then it enters in Kazakhstan from where it connects with Russian pipeline system that takes the gas towards Black Sea port of Russia to export it to Europe.

---

123. "Energy Profile of Central Asia" Online at, http://www.eoearth.org/article/energy_profile_of_central_asia#central_asia_center_pipeline, (Accessed on, December 12, 2009).



Source: Energy Information Administration

All pipelines are moving northwards, so these states are left with no option but to use Russia pipeline network to export their gas and oil. The major objective of constructing Central Asia Center pipeline in such North-South direction is maintaining Russian monopoly over the energy resources of these states. The Turkmen gas reserves especially of Daulatabad are situated close to Europe than Russia's Siberian and Far eastern gas reserves. Therefore, construction of such pipeline as CAC could serve Russia's objective of control over natural gas reserves of Turkmenistan and Uzbekistan and oil of Kazakhstan.

Russia has been in control of Natural gas of Central Asian states through number of contracts since their independence.[124] After the collapse of Soviet Union, Russia and its energy giant Gazprom were of the view that maintaining dominance over Central Asia's energy resources would not be difficult.[125] As Russia had not built an infrastructure in these states for direct export. Rather they would depend on Russia and its pipeline system. Gazprom the Russian energy Conglomerate was reorganized after 1991 and it took control of main pipelines of Russia including of CAC .[126] This step limited the Turkmen access to the International market. A difficult situation arose for Turkmen economy and it further got complicated with the indisposed manners of Gazprom towards Turkmenistan. Gazprom and Turkmenistan were partners. Turkmen gas used to flow in Gazprom pipelines. Gazprom was reluctant in payments to Turkmenistan. Turkmen govemment and especially its president Sapar Murat Niyazov was highly dissatisfied with the situation. During 1990's, Russia tried its best to secure some agreements for long-term Turkmen gas supply through Central Asia Center pipeline in order to increase Turkmen dependence over Russia. After years of efforts, Gazprom succeeded

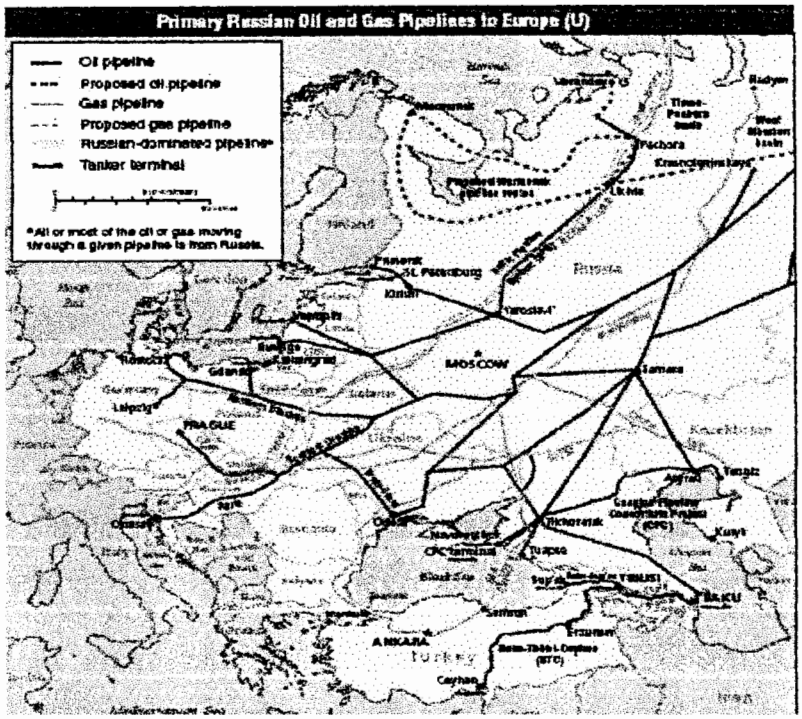
---

[124]. Micheal Fredholm. "The Russia Energy Strategy & Energy Policy: Pipeline Diplomacy or Mutual Dependence". Online available at www.da.mod.uk/colleges/arag/document-listings/russian/05(41)-MF.pdf, , (Accessed on January 18, 2010).

[125]. Pederson Jay. International Directories of Company Histories, (New York: St Jones Press, 2002), p. 202.

[126]. Sagers, Mathew. "The Russian Natural Gas Industry in the Mid 1990's Post Soviet Geography, (New York Routledge, 1995), P, 37.

in its effort and signed some new agreements with Turkmenistan, Kazakhstan Uzbekistan and Kyrgyzstan's national gas companies. These agreements show Russia hegemony in Central Asian pipeline system.



Russian pipeline system: www.eia.doe.gov

Gazprom signed these contracts with KazTransgaz, UzTransgaz, Turkmenneftgaz for 38bcm gas in 2003. According to these agreements, Gazprom would be buying gas from Turkmenistan and Uzbekistan and sell it to Kyrgyzstan.[127] These agreements were called "agreements of strategic cooperation". After signing these agreements, a big question arose, will CAC be able to accommodate the huge volume of gas Gazprom was going to move

[127]. For Details, www.interfax.com. May 16, 2003. (Accessed on January 12, 2010).

through it. Because it was in a technically poor condition. It had a capacity of approximately 90 bcm.[128] On the other hand, Turkmen gas supply was slightly less than the capacity of CAC. Moreover pipeline was overloaded with Kazakh, Turkmen and Uzbek gas deliveries along with Russia. Due to its poor technical condition, Turkmenistan could not achieve its gas export target in 2003. That is why Turkmen president proposed to renovate the CAC pipeline.[129] However, no significant development was made due to in sufficient budget. Another agreement was signed in 2007 to construct another pipeline parallel to CAC-3 pipeline.[130] The agreement was signed between Russia, Turkmenistan and Kazakhstan. Such agreement was necessary to secure Russian interests in Turkmen gas resources.[131] Russia wanted to increase its gas import from Turkmenistan for further export to Europe.[132] Gazprom decided to invest $ one billion and Kazakhstan placed $ 800 million for the modemization of CAC in 2006-08.[133] After the 2006 Russia Georgia

---

[128]. For Details. *http://www.gazprom.com/press/news/2009/december/article73731/*, (Accessed on January 15, 2010).

[129]. "Kazakhstan, Russia and Turkmenistan Agree to Renovate the Pipeline". *http://www.en.government.kz/site/news/05200716*, (Accessed on January 16, 2010).

[130]. For Detail, http://www.gasandoil.com/goc/news/ntc94117.htm. (Accessed on January 18, 2010).

[131]. Yuri M Zhukou, "Addressing Pipeline Security Challenges in Russia". Eurasian Insight, www.eurasianet.org, July, 2006. (Accessed on January 12, 2010).

[132]. Mehmet Ogutcu, "Kazakhstan's Expanding Cross Border Gas Links: Implications for Europe, Russia China and other CIS Countries", Online Available at,

http://www.dundee.ac.uk/cepmlp/journal/html/vol17/article17-8.php, (Accessed on January 2, 2010).

conflict, when Russia suspended gas supply to Europe. Other countries of the region started thinking about developing their own pipelines so their dependence over Russia would be minimized. In April 2009, a huge blast occurred in this pipeline.[134]This resulted in a break in gas supply to Europe as Russia closed pipeline for Turkmen gas.[135]This incident persuaded Turkmenistan to find new routes of pipeline.

The discussion shows that Central Asia Center pipeline was constructed to create Russian control over Central Asian energy resources. After the collapse of Soviet Union Russia tried to strengthen its strategic position in the region using energy resources of Central Asian states. However, poor Central Asian states could not save much in this energy game in the region.

5.2- BAKU-TBLISI-CEYHAN PIPELINE AND OIL TRADE

Baku Tbilisi Ceyhan pipeline is a crude oil pipeline that will extend from Azeri Chiragh gas field in Azerbaijan and running through Georgia and terminates at Ceyhan on the Mediterranean coast of Turkey.[136] BTC is 1760

---

[133]. For Details, *http://www.en.rian .ru/world/20060906/53562958.html*, (Accessed on January 12, 2010).

[134]. "Gas Flow From Turkmenistan to Russia Remain in Doubt", *Oil and Gas Insight*, October, 2009

[135]. "Turkmenistan May Sue Russia For Vacuum-Bomb Pipe Blast", *http://www.rferl.org/content/turkmen_may_sue_russia_for_vacumbomb_pipe-blast/1742793.html*, (Accessed on January 19, 2010).

[136]. "BTC Project", *www.ifc.org/btc*, (Accessed on January 19, 2010).

km long pipeline. It has the capacity of transporting up to 1 million barrels oil per day. Its cost was 3.2 billion cf and most of the financial support for the project came from World Bank's International Finance Commission.[137]

US interest in the Central Asian and Caspian energy became visible soon after the break up of Soviet Union. For this purpose, United States adopted the policy of economic development of the region. Another important aspect of US policy in the region was the control of energy resources and development of new routes to minimize dependence on Russian pipeline system.

BTC pipeline has become a major strategic objective for the US energy policy of the region. Despite severe criticism from Russia and many other countries US strongly supported the project. This project is very important for future European energy requirements. This pipeline has not only economic implications but also its political and strategic effects would be great.

BTC pipeline serves a major objective of US and European energy policy of building multiple pipelines.[138] Not only US and EU but also the regional countries that support this project foresee their future is escaping from Russian pipeline net.

---

[137]. For Detail, *http://www.itartass.com/eng/search.html?sch=BTC&x=9&y=11*. (Accessed on January 25, 2010).

[138]. Richard, Morningstar, "The Baku-Tblisi-Ceyhan pipeline: A Retrospective and a look at the Future", *Central Asia-Caucasus institute Analyst issue*, August 2006.

Russian Concerns

BTC pipeline will add to Russia's future challenges for the control of energy resources and routes.[139] BTC would ensure further economic independence to Azerbaijan and other countries in the region like Turkey and Georgia. It would weaken the Russian dominance and policy dictates. Russia is considered as the biggest loser after the construction of this pipeline both in economic and political terms. Russia uses its natural oil and gas pipelines to protect its foreign policy interests in Central Asia and Europe. BTC pipeline would mean that Russia would lose one of its biggest tools of maintaining hegemony on the regional and Tran's regional levels.[140] BTC would affect Russia economically as well. Russian pipeline system is technically backward and have limited capacity.[141] Development of new modern and high capacity pipeline would divert more customers for new pipelines built across the region. Russia needs to increase capacity of its system.[142]

Russia reacted aggressively to the launch of BTC pipeline. Russian President holds a conference of Caspian littoral states in July 2005. The objective of this

---

[139] Svante. E. Cornell, Mamuka Tseveteli, Viladimir Socar, "Geo Strategic Implications of the Baku Tblisi Ceyhan Pipeline". www.ispd.eu/files/publications. (Accessed on October 27, 2009.

[140] Bkhtiyar, Badalov, " European Energy Security: Caspian Energy as an Alternative", Center for Energy Researches", October 31, 2009.

[141]. "Energy Security and G-8 Seminar", *Carnegie Endowment Russia and Eurasia program* July 6, 2006.

[142]. Micheal Fredholm, "The Russian Energy Strategy & Energy Policy: Pipeline Diplomacy or Mutual Dependence?", *Conflict Studies Research Center, Russian series*, issue 41, September 2005.

conference was to restore traditional Russian control.[143] Russia also tried its best to prevent participation of Central Asian countries Kazakhstan, Turkmenistan and Azerbaijan in BTC pipeline. For this purpose, Russia proposed alternate routes and offered higher prices of gas than before. However, this did not work to Russia's favor.

US & EU Perspective

BTC pipeline is an ultimate escape for EU to gain independence from Russian pipeline system. Since it became clear that Central Asia and Caspian region is turning to be a major source of oil and gas, international petroleum companies especially from US and Europe started heavy investment in the region's energy resources.[144] However, there were some apprehensions regarding the use of Russian pipeline system. In 2006, after the Russian Georgia conflict when Russia disconnected the supply of natural gas to Europe, EU and US

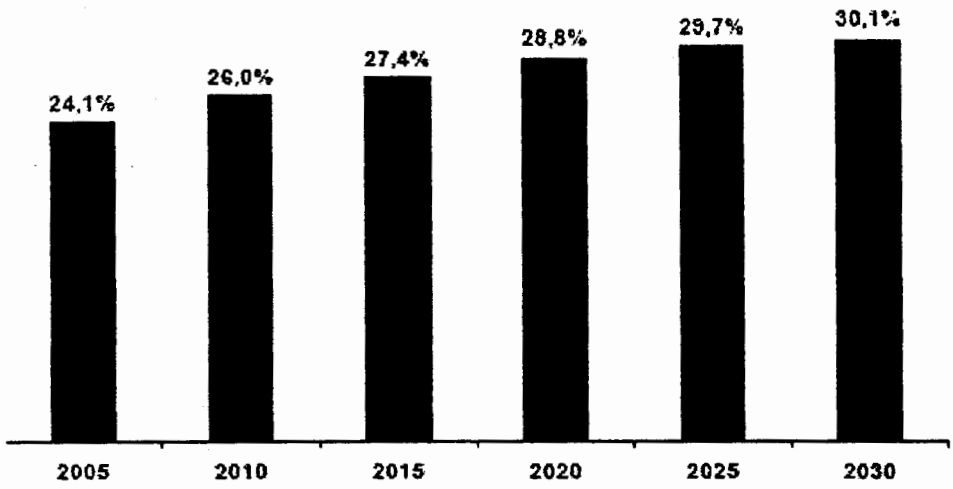
---

[143]. Fariz Ismalizade, Russia's Energy Interest in Azerbaijan, *Institute for the analysis of Global security, GMB publisher* London , 2006, p 45

[144]. Event Report, 'From Pipeline Dream to Pipeline: The Realization of Baku-Tblisi-Ceyhan Pipeline", *Belfer Center for Science and international Affairs, John F Kennedy School of Governments, Harvard University,* 2007.

http://belfcenter.ksg.harvard.edu/publication/12795/from_pipelin. (Accessed on January 22, 2010).

became more concerned about the energy relations in future.[145] BTC pipeline



European Gas Demand Projections to 2030 (IEA) Source: World Energy Outlook

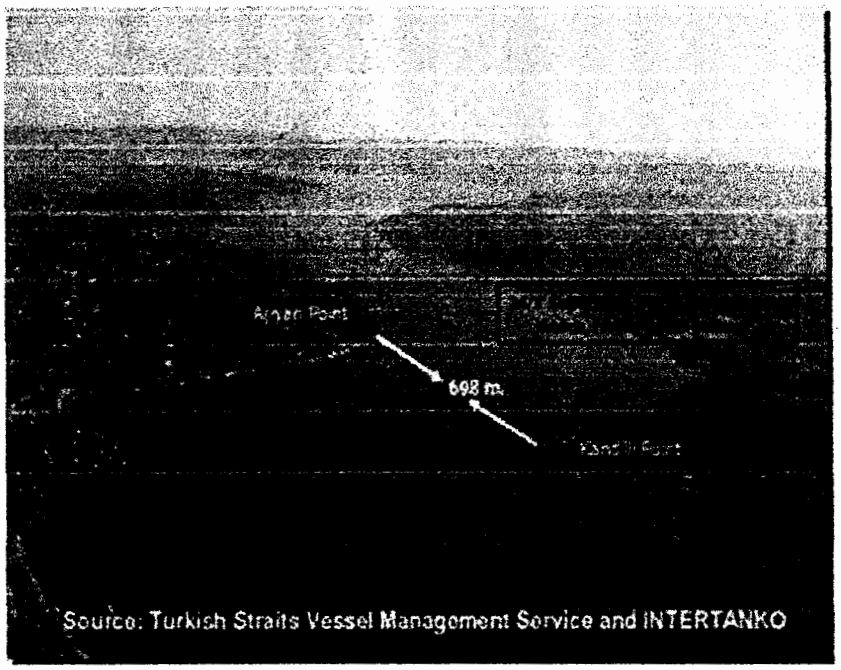
is a strategic move towards expanding interaction between Central Asia and west. Uninterrupted supply of oil and gas is crucial for Europe's growing energy needs. Whereas Russia's existing pipeline system cannot put up with the growing gas trade between Russia and Europe.

Regional Issues in Pipeline

Apart from US EU & Russia, BTC have great implications for regional states. Turkey has realized its importance for the control of energy corridors in the wake of growing energy demands in its territory and in west. Therefore, its attention diverted to BTC project.

---

[145]. Larry T. Mark, "The Caspian Sea Pipeline: A Clear Strategic US Interest", *US Army War College 2007,* BMB Publishers London, 2006, p,45.



Turkish Strait, Source: Energy Information Administration.

Already 3 million bpd oil is transported through Turkish straits. Turkish strait cannot afford more traffic. Turkish energy minister Ramzan Mirzaoglu admitted this fact in 2005.[146]

Another important reason for Turkey to join BTC project is that Turkey is a NATO ally and strategic partner of United States.[147] Joining the BTC pipeline could best serve its geo-strategic and economic interests in the region and in EU. This project would also strengthen Turkish relations with newly independent states. This would possibly become a regional alliance and

[146]. Svante, O, Cornell, Geo Strategic Implications of Baku Tblisi Ceyhan Pipeline.

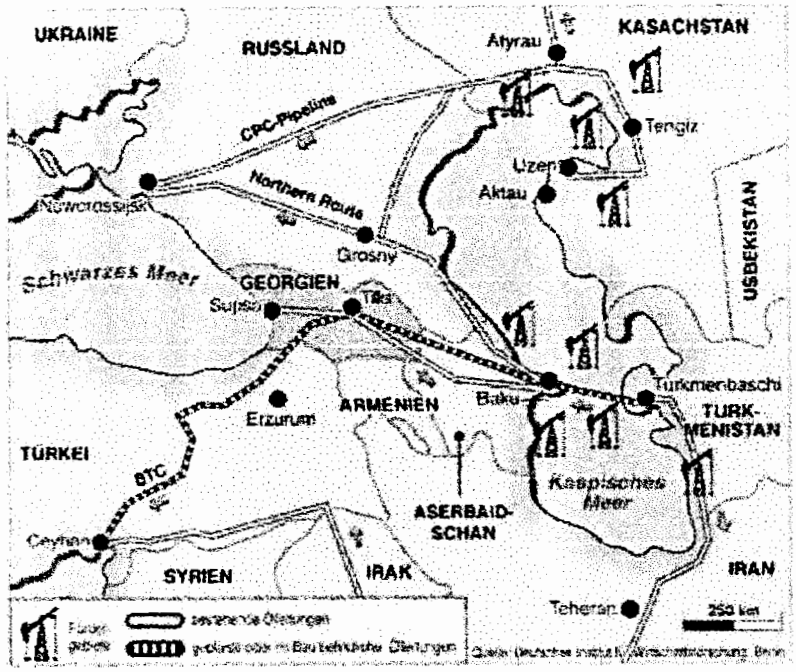
[147].Life of the Baku Tblisi Ceyhan pipeline is expected to be 40 years.

increase Turkish regional and international importance. BTC pipeline would also bring together Turkey, Georgia and Azerbaijan for the next four decades.

Azerbaijan, Kazakhstan and Turkmenistan & BTC

After 1991, the biggest obstacle in transporting Kazakh oil and Turkmen gas to west was the lack of infrastructure. One link for Kazakhstan was Atyrau Samara pipeline from Kazakhstan to Russia. That was not enough for Kazakh exports. Kazakhstan joined the BTC project to supply 7.5 million tones of oil. This amount will soon reach 25 million tones. In this way, BTC would become a key project for Kazakhstan energy sector development. In order to proceed further Azerbaijan and Kazakhstan signed a provisional agreement for the construction of Kazakh-Caspian Transportation System (KCTS) with the cost US $of 1.6million. This system would be operational by 2012. Kazakh president and parliament also endorsed the agreement in 2008.[148]

[148]. According to 2006 estimates, the Kazakh Caspian Transportation system was scheduled to come into operation in 2010. Kazmunaygas reported in 2008 about the postponement of KCTS launch to 2012. Kazakhstan announces Trans Caspian Oil transport system December 2006.



Turkmenistan's gas export to Europe through BTC pipeline

Iranian Factor in BTC

Iran is also against the BTC project. One reason is obviously the support of US for such a route that avoids entering Iran. For Central Asia and Caspian, energy trade Iran is considered the most cost effective route. However, United States has always supported the routes that do not pass through Iran, due to possible terrorist attacks and vulnerability to Iranian aggression. Iran would be a big loser in this game of energy with the construction of BTC pipeline.[149]

[149]. "Iran the only biggest loser in the BTC Pipeline Project" Iran press service online at *http://www.iran-press-service.com/article_2002/september-2002/btc_%20pipeline-%20inked_18902.htm*, (Accessed on January 20, 2010).

Supporters of BTC pipeline have been advocating the pipeline after carefully analyzing the technical commercial and political consequences. However, vehement opposition from Russia and Iran would complicate Central Asia's energy game.

5.3 – THE LEGAL STATUS OF CASPIAN SEA

The break up of the Soviet Union brought drastic changes in the region.[150] Now the region was opened for the international investors to invest in exploration of rich energy resources of the Caspian Sea. The petroleum rich countries of the region are trying hard to attract foreign direct investment. There are two billion barrels of oil and possibly 325 trillion cubic feet of natural gas beneath the Caspian Sea.[151]

Caspian Sea is an inland body of water. It has a surface area of 143,244 square miles. It is 700 miles long and 170 miles wide. It is almost of the size of Japan. The average depth of the Caspian Sea is 86 feet below Sea level.The only link of the Caspian Sea to the out side world is through Volga river and some canals that connect it with Black Sea and Baltic Sea.[152]

---

[150]. Kamyar Mehdiyoun, "Ownership of Oil and Gas Resources in the Caspian Sea" http://www.ogel.org/journal-advance-publication-article.asp?key=161. (Accessed on January 26, 2010).

[151]. Almost 27% of the world Oil reserves is in the Caspian Basin and some 7% of world's gas reserves , see the "Changing face of energy geopolitics" OECD Observer June 22, 1999.

[152]. Kamyar, Mehdiyon, "International Law and the Dispute over Ownership of Oil and Gas Resources in the Caspian Sea" *The American Journal of International Law*, Vol. 94, No. 1, January, 2000.

The legal status of the Caspian Sea is not declared. Perhaps there is a dispute over its status among the all-littoral states.[153] This is the biggest obstacle in the exploration of energy resources of Caspian as well as diversification of pipeline routes. These energy resources are the main attraction for the US and west. In addition, they are apple of discord between regional contenders. That is why it is said, "energy resources of Caspian Sea and Central Asia may become to twenty first century what the Persian Gulf has been for the twentieth century."[154]

History of the Caspian Dispute

The dispute over the world's largest inland body of water is centuries old. During the Tsar's period, Caspian Sea was under joint ownership of Russia and Iran. Russia and Iran signed "Gulestan Pact" in 1813 to decide the joint ownership of Caspian. This was reaffirmed in 1828 "Turkmenchai" Pact. The treaty of 1828 gave Russia commanding position over the waters of Caspian Sea.[155] These two pacts were the outcome of Iranian defeat in Russo-Iran war. According to these pacts, Iran could use Caspian water only for trade or commercial purposes. However, Russia could sail military vessels in the Caspian.

---

[153]. Jausz. Bugajski, and Marek Michalwski, *Towards an Understanding of Russia: A New European Perspective*, (New York: Published by Council on Foreign Relations, 2002), p. 53.

[154]. *Bulletin of Atomic Scientists* Vol. 54 no. 1 January 1998.

[155]. Mikhail Volodarsky, "Persia's Foreign Policy Between the Two HERAT Crisis", *Journal of Middle Eastern Studies*, Vol. 2, April, 1985.

Caspian Dispute in 20th Century

Russia experienced drastic changes at the start of 20th century. Tsar's rule ended. Russia suffered a severe defeat in First World War. Moreover, In 1917 Bolshevik Revolution turned the whole scenario. The treaty of "Turkmenchai" was renegotiated after the Communist Revolution of 1917. A new treaty was signed in 1921 called "The treaty of Moscow" This was reaffirmed in 1935 and superseded by the "Protocol of 1940".

These agreements granted the Caspian Sea, the status of joint property of USSR and Persia.[156] In these agreements, only trade, navigation, and fishing matters were decided. No legal status of the Caspian Sea was determined. However, an informal Ariel agreement was decided in 1964 to determine the flight information zone. This flight information zone was considered as the accepted dividing line of the Caspian Sea. Russia and Iran considered Caspian a lake; hence, they are of the view that both countries should exploit its resources jointly.

---

[156]. Bruce R. Kuniholm, "The Geopolitics of the Caspian Basin", *Middle East Journal*, Vol. 54, No. 4, Autumn, 2000, P. 550.

Caspian Sea

Status of the Caspian Sea after 1991

The Caspian Sea region underwent revolutionary changes after the dismemberment of Soviet Union. Three new states emerged bordering Caspian Sea, Azerbaijan, Kazakhstan, and Turkmenistan. Previously they were under Soviet rule. Therefore five claimants emerged after 1991 for the ownership of Caspian Sea.

Among these states, Iran and Russia consider Caspian a lake, while Azerbaijan, Kazakhstan, and Turkmenistan consider it a sea. Since five littoral states of the Caspian had not reached an agreement upon the legal status of the Caspian and its energy resources in the seabed, no country clearly knows about the ownership of its oil and gas reserves in Caspian basin.

Initially Iran and Russia wanted to continue joint control of the sea. According to them, it does not fall under the 1982 United Nations Convention of Law of the Sea and all littoral states should jointly control the Caspian Sea. However, Russia changed its policy in 1996 and proposed to redistribute the Caspian Sea among all littoral states. The jurisdiction of each state could enter 45 miles from its shoreline. In addition, area beyond exclusive jurisdiction would be controlled jointly. In early 1997, Russia changed its position again over Caspian Sea and signed an agreement with Kazakhstan over the division of seabed, and to jointly control surface water and air space.

Each littoral state has its specific dispute with other states regarding Caspian Sea.

i- Turkmenistan and Azerbaijan are fighting over their boundary lines in the Caspian.

ii- Iran and Azerbaijan have differences over the rights of exploring seabed.

iii- Iran is of the view that a legal framework for the division of Caspian is a precedent before starting any exploration of its oil and gas.[157]

iv- While Russia aggressively project his policy that not a drop of oil will flow from Caspian and no pipeline would be laid in the Caspian basin before the resolution of the conflict

Iran proposed that every state should hold 20% of the seabed and joint control of the surface. In case of any proportionate division, Iran would have 16% of the seabed. While Russia 15.6%, Kazakhstan 29%, and Azerbaijan with 20% and Turkmenistan 19.2% respectively Later on, some developments were seen on the issue where Russia, Kazakhstan and Iran showed agreement over the 20% control of seabed. While Turkmenistan did not show its agreement.[158] Iran's isolation has been increasing since 1998. Due to this

---

[157]. *ibid*

[158]. Philippe, L, Billon, *Geo Politics of Resource War: Resource Dependence, Governance, and Violence*. (New York: Francis & Taylor Publisher, 2005), P, 175.

factor it has shown some flexibility in its stance over Caspian Sea.[159] Now Iran agrees over the equal division of resources with 20% share of each. However, it supports the division of both seabed and surface water. Russian agreement for 20% hold of sea has some strategic objective. The northern part of the sea has rich gas resources. In case of joint jurisdiction, these resources would be a joint property of all littoral states.

The presidents of all five littoral states held a meeting in 2002 in Turkmenistan to discuss the issue of Caspian legal status. However, the summit failed and five states could not reach any agreement. Instead, it looked as the tension has increased between the littoral states. After this summit, Azerbaijan and Kazakhstan carried on some oil exploration projects near their coast of Caspian despite warning by other states.

Iran and Turkmenistan severely opposed the exploration by Azerbaijan & Kazakhstan. In 2001, Iran and Azerbaijan came very close to military confrontation over a survey conducted by Azeri naval vessels. Many experts have been talking about the expected military conflict over the hydrocarbon resources of the Caspian that could be a limited or large-scale confrontation involving more than two or three states. In 2004, Kazakhstan initiated a new proposal for the settlement of legal dispute over Caspian Sea. Kazakhstan proposed a clear division of water surface to facilitate laying of pipeline in the

[159]. *Irna (Tehran)* May 30, 2002, via World News Connection.

Seabed and deployment of military forces for monitoring. Kazakhstan supported the idea that every country should be allowed to lay cable or pipeline in the seabed. Azerbaijan opposed the idea, as it is a strong supporter of demilitarization of the Caspian.

Caspian Summit held in Tehran in 2007 failed to produce any significant result. Another Caspian summit was held in Ashgabat in 2009. However, a stand off between Azerbaijan and Turkmenistan caused a failure to the summit. Besides the interest of five littoral states, US is also keen to play its role in this regard. US offered its mediation between Turkmenistan and Azerbaijan. United States has been increasing its role in Caspian energy affairs to decrease the monopoly of Russia and GAZPROM over the Caspian energy resources. In 2009, Turkmenistan's announcement that it would take the matter in international arbitration and it would build naval coast guards further worsened the issue. The dispute over the Caspian legal regime has severe implications for the region's economic development especially for Trans Caspian pipeline.[160] Currently, diversification of export routes and construction of pipeline is the most important issue. Russia and Iran are severely criticizing the idea of laying Trans Caspian pipeline before the resolution of Caspian legal dispute.

---

[160]. Robert E. Ebel, Rajan Menon, *Energy and Conflict in Central Asia and Caucasus*, (Boston: Rowman & Littlefield Publishers, 2000), P. 12

Same is the case with Nabucco project which is strongly supported by USA and EU .[161] This pipeline would connect the Caspian reserves through Turkey to European market. Turkmen and Kazakh energy deposits would be connected to Nabucco pipeline through Trans Caspian pipeline. This would help these states in reducing their reliance over Russian pipeline network and ensure their economic development. However, the realizations of such ambitious projects do not look possible before the dispute of Caspian legal status is determined.

5.4 - TRANS CASPIAN PIPELINE & EU GAS TRADE

The Russian pipeline network has played a crucial role in the energy politics of the region after the collapse of Soviet Union. Russian pipeline system is an evidence of heavy dependence of Central Asia states over Russia. However, this strategy worked in Soviet rule in an isolated environment. As involvement of intemational players increased, the idea of diversification of pipeline routes gathered momentum.

On the other hand, independence from Middle Eastem oil has bee a constant cry in US.[162]The search for alternate energy resources has turned the US attention towards Central Asian energy resources. A great hurdle in this

---

[161] Alexander, Peterson, "Nabucco and Trans Caspian relations", Atlantic Council, September 18, 2009.

[162]. Martha Bill. Olcott. "Kazakhstan: Unfulfilled Promise".

regard is lack of infrastructure or pipelines, whatever pipelines exist are built by Russia. To avoid dependence upon Russian pipeline system, one of the options available for US is Tran Caspian pipeline.[163] For this purpose, United States and European Union supported the idea of building of a pipeline from Turkmenistan to Azerbaijan beneath Caspian Sea.[164] Kazakhstan and Turkmenistan's gas and oil reserves would be connected to Europe, avoiding Russian territory through the pipelines running in Europe.

This project was proposed in 1997. A consortium was formed for this project. AMOCO, GE CAPITAL and BECHTEL enterprises and SHELL were members of this consortium. US Trade and Development Agency provided $ 750,000 for the feasibility study of project. Presidents of Azerbaijan, Georgia, Turkmenistan and Turkey signed the agreement in November 1999.[165]

Besides the fact that Turkmenistan and Kazakhstan have rich energy resources. Turkmenistan has the advantage of its location. From Turkmenistan, not only Russian and Iranian route could be avoided as per US policy. In addition Turkmenistan can serve as a cross road for trade between Russia, China and Middle East and South Asia.

---

[163]. James Fishelson, "From Silk Road to Chevron", *The Journal of Russian and Asian studies*, issue # 7, winter, 2007.

[164]. "Caspian Sea Region: Natural Gas Export Options", www.eia.doe.gov, July 2002. (Accessed on December 14, 2009).

[165]. "Trans Caspian Gas Pipeline", www.kmg.kz/page.php?page-id=1236&iang=2, January 21, 2009. (Accessed on January 20, 2010).

Turkmen support for TCP

The idea of Trans Caspian pipeline was presented in 1997, when Russia and Turkmenistan developed differences over gas price issue. Russia was trying to use traditional Soviet style policy of pressurizing and dictating Turkmenistan for gas export upon Russian terms and conditions.[166]

The idea of Trans Caspian pipeline was very attractive for Kazakhstan, because all of its export routes connect its oil fields with Russian CAC pipeline, which takes them to the Russia's Black sea port of Novorossiysk. These two factors played a very important role in drawing Turkmen and Kazakh interests in Trans Caspian pipeline.

Russia wanted to continue its policy of buying gas at cheap price from Central Asian States.[167] However, there was dissatisfaction among Central Asian states about this policy. Understanding the US efforts for the realization of TCP gathered momentum. US intensified its efforts to remove all impediments in the way of this project.[168]

There were many problems involved in the process. However, US efforts could not bear fruit due to policies of Turkmen president Sapar Murat Niyazov who kept his country isolated since 1991. After his death in 2006,

---

166. Gennady Illarionovic Chufrin. *The Security of Caspian Sea Region*, (New York: Stockholm International Peace Research Institute, Oxford University Press ,2001), P. 236

167. Sergie Blagov, "Russia Tries to Scuttle Proposed Trans Afghan Pipeline". www.eurasianet.org, March 2006, (Accessed on January 19, 2010).

168. William Ascher Natallia. *The Caspian Sea: A Quest for Environmental Security*, (Netherland: Kluwer Academic Publishers, 2000), P. 315-317

political opposition.[172] Azerbaijan President expresses such an opinion. He is also of the view that Azerbaijan is ready to participate in the project.[173]

An important reason for Russian and Iranian opposition for the project is the legal status of Caspian Sea. Due to undeclared status of Caspian Sea, Russia and Iran consider such a project unrealistic and impracticable. They are of the view that before constructing a pipeline beneath Caspian agreement of all littoral states over the status of Caspian Sea is a pre-requisite. Russian president Putin and Iranian president Ahmadi Nejad strongly projected their opposition to the project during 2007 Caspian Summit in Tehran.[174] Although negotiation have been going on for many years for the settlement of Caspian dispute. Azerbaijan has successfully settled down its Caspian issue with Russia and Kazakhstan.[175] However, issues with Turkmenistan are still pending. Moreover, Russia and Iran opposed this project on environmental grounds.[176] According to experts, it can cause fluctuation in the seabed. It would increase water pollution. It is considered a risk for marine life. As there

---

172. 'Global security: Russia, House of Commons Foreign Affairs Committee", Second Report 2007-08, p. 58-60

173. "Azerbaijan will join Trans Caspian Gas Pipeline-Official", *Interfax Moscow*, May 8, 2007, (Accessed on January 19, 2010).

174. "Caspian Summit rejects Iran attacks", ***http://English.Aljazeera.net.*** (Accessed on January 15, 2010).

175. "Risks and Rewards Abound in Turkmen Plans for Caspian Legal Action", www.ihglobalinsight.com/SDAdetail17400.htm, July 2009. (Accessed on January 11, 2010).

176. Shirin Akiner. The Caspian Politics Energy & Security, (New York: Routledge Curzon Publisher, 2004), P. 27.

political opposition.[172] Azerbaijan President expresses such an opinion. He is also of the view that Azerbaijan is ready to participate in the project.[173]

An important reason for Russian and Iranian opposition for the project is the legal status of Caspian Sea. Due to undeclared status of Caspian Sea, Russia and Iran consider such a project unrealistic and impracticable. They are of the view that before constructing a pipeline beneath Caspian agreement of all littoral states over the status of Caspian Sea is a pre-requisite. Russian president Putin and Iranian president Ahmadi Nejad strongly projected their opposition to the project during 2007 Caspian Summit in Tehran.[174] Although negotiation have been going on for many years for the settlement of Caspian dispute. Azerbaijan has successfully settled down its Caspian issue with Russia and Kazakhstan.[175] However, issues with Turkmenistan are still pending. Moreover, Russia and Iran opposed this project on environmental grounds.[176] According to experts, it can cause fluctuation in the seabed. It would increase water pollution. It is considered a risk for marine life. As there

---

[172]. 'Global security: Russia, House of Commons Foreign Affairs Committee", Second Report 2007-08, p. 58-60

[173]. "Azerbaijan will join Trans Caspian Gas Pipeline-Official", *Interfax Moscow*, May 8, 2007, (Accessed on January 19, 2010).

[174]. "Caspian Summit rejects Iran attacks", ***http;//English.AlJazeera.net.*** (Accessed on January 15, 2010).

[175]. "Risks and Rewards Abound in Turkmen Plans for Caspian Legal Action", www.ihglobalinsight.com/SDAdetail17400.htm, July 2009. (Accessed on January 11, 2010).

[176]. Shirin Akiner. The Caspian Politics Energy & Security, (New York: Routledge Curzon Publisher, 2004), P. 27.

is a fault line of earthquake in the Caspian bed. Any earthquake of high magnitude could result in a blast in pipeline. Fishing industry would also suffer by this project.[177]

To counter Caspian pipeline, Russia has proposed south Caucasus pipeline. Another important diplomatic effort by Russia to keep Azerbaijan away from Trans Caspian pipeline is that Russia might recognize the Azerbaijan control over Nagorno Karabakh, which is a disputed territory and under Armenia's control. If Russia succeeded in its efforts, it would result in its greater control over the energy resources of Central Asia.

The politics of energy resources especially over Trans Caspian pipeline has intensified the conflict between different regional and global actors for the control of energy resources. The most negative impact of this politics is not faced by Russia , USA or EU but the Central Asian and Caspian states whose future is at stake.

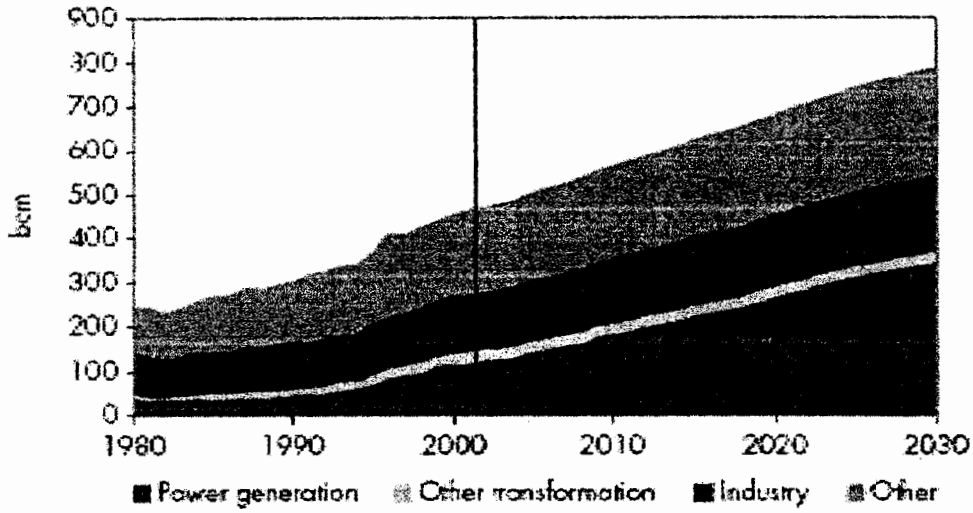
5.5 - NABUCCO PIPELINE

Nabucco is a proposed project for natural gas pipeline. This pipeline also aimed at reducing European dependence on Russian pipeline system bringing Central Asian and Caspian gas to a hub in Austria via Turkey, Bulgaria, and Romania. This pipeline would export 31 billion cubic meter gas to Europe annually to meet growing energy demands in Europe.

---

[177]. Gendii Illaionovich Chufrin. The Security of Caspian Region, P. 256.

Nabucco pipeline was conceived in 2002. After initial discussion five companies, participating in discussion formed a consortium in 2004.[178] United States and European Union strongly support Nabucco. However, Russia strongly opposes the project.



Europe's growing gas demands. Source: Energy outlook.

Russian Opposition

Russia knows that Nabucco pipeline will weaken its control over Central Asian and Caspian energy routes and its strategic strength. Russian government very well understands that oil and gas sources are of utmost importance for Russian's military and economic strength and control of the

[178]. Marco Giuli, "Nabucco pipeline and the Turkmenistan Conundrum", *Caucasian Review of international Affairs*, vol. no. 2, issue no. 3, summer,2008 .

region. Energy resources are key to maintain such a strong and large army and security setup in the country as well as in the region and around the world.[179] Nabucco pipeline would also threat Russia in maintaining its commitments to supply oil & gas to Western Europe. As it would divide oil and gas supply between Russian pipeline and Nabucco. Energy exports account for 61 percent of Russia's foreign trade. Among this oil and gas, trade 70% oil & gas are supplied to Europe. It massively subsidizes domestic energy market but no major oil and gas exploration is going on within the country. Russian government does not encourage foreign investment in this sector. All these factors are contributing to Russia's problem in energy field. The only way to maintain its control is the pipeline routes that gives Russia an edge in this game and helps to maintain its monopoly in the region. Nabucco pipeline would provide regional countries an alternate route for the trade of oil and gas. This would severely influence Russian trade and its monopoly.

Implications for the Regional Actors

Turkey is trying its level best to achieve its strategic goal of becoming gas hub of Europe.[180] During his visit to Brussels in January 2009, Turkish Prime Minister assured the European Union that Turkey is ready to participate in

---

[179] Steven. Pearlstein. "Russia Strike shows the Power of Pipeline", *Washington Post*, August 13, 2008.

[180] Most of the alternate route for gas supply to Europe passes through Turkey.

EU's efforts for energy security.[181] There are some important interests lay behind Turkey's support for Nabucco project.

Economically Nabucco project would make Turkey energy hub of Europe. All gas coming from Caspian and Central Asian states would pass through Turkey. Turkey would not only gain transit fee but Turkey's own growing energy needs would be fulfilled. Turkey is the world's 17th largest economy and its energy demand is constantly on rise at a rate of 6-8% per year. Turkey's energy imports are around 70% of its total consumption and gas is 37% of its total energy in 2010.[182]

In order to satisfy its own energy demands and ensure gas supply security, Turkey wants to buy gas at cost effective price 15% of that gas shipped through the pipeline via Turkish territory.

Besides this economic interest, a very important strategic interest of Turkey in Nabucco project is its bid for European Union member ship. European Union has been constantly pressing Turkey for democratic reforms. Turkey is of the view that European Union is playing double standards against Turkey by treating it differently from other candidates for EU membership. On the other hand, Nabucco pipeline project has gained considerable importance after the

---

[181] Saban, Karda, "European energy security and Nabucco occupy a Central Place in Erdogan's Brussels trip Jamestown Foundation, Eurasia Daily Monitor, vol. 6, issue no. 12.

[182]."Nabucc Project and Turkey". www.interactproject.org/content/doc/...nabucco_project_and_Turkey.pdf, (Accessed on January 19, 2010.

2006 Ukraine Russia gas dispute, in which Russia suspended gas supply to Europe and European customers, had to face shortage of gas for many days. In Turkey's opinion, Nabucco project would play an important role in minimizing dependence over Russia. In addition, Europe badly needs this project. Nabucco pipeline will not become a reality without Turkey's participation. Therefore, Nabucco would play an important role in securing Turkish strategic goal.

Azerbaijan and Turkmenistan

The Nabucco pipeline project was signed in 2002 and it was expected that the pipeline would be operational in 2014.[183] This pipeline would supply 31billion cubic meter of gas to Europe via Turkey, Bulgaria, Romania and Hungry.

Although, pipeline does not pass through Azerbaijan and any other Central Asian state, but Azerbaijan would be the first major gas supplier to Nabucco pipeline. Currently, Azerbaijan exports small volumes of its gas to Georgia and Turkey. Existing pipeline would carry gas from Azerbaijan to Turkey from there it would enter in Nabucco pipeline.

Nabucco would reduce Azerbaijan's reliance over Russian network of pipelines. That is why Nabucco is very important for Azerbaijan. Russia is trying hard to keep Azerbaijan away from Nabucco. Due to slow progress on

[183]. Dnevnik, bg, "EU downgrades Nabucco Pipeline Project", WARWAW Business Journal, March, 2009.

Nabucco, pipeline Azerbaijanis left with no option but to negotiate with GAZPROM for gas supply to Russia.

Nabucco is very important for Turkmenistan also. Turkmenistan's strategy for the diversification of pipelines for oil and gas exports has made it consider Nabucco pipeline project. In July 2009, Turkmenistan's President Sapar Murat Niyazov showed his agreement for the supply of gas to Nabucco pipeline.[184] According to Reuters, Turkmenistan's agreement came after the pipeline blast row between Turkmenistan and Russia. On the other hand, some observers are still in doubt about the Turkmenistan's commitment to supply gas for Nabucco.[185]As Turkmenistan has made many commitments for gas export like Trans Afghan pipeline and especially Turkmenistan China gas pipeline. [186] Experts doubt about availability of gas after so many agreements.

Iran and Nabucco pipeline

As far as Iran is considered, its position in Nabucco pipeline project has become very controversial. Turkey introduced the idea of Iran's participation in Nabucco pipeline project in defiance of US wishes. The main reason

---

[184]. Marat, Gurt, "Turkmenistan Ready to Supply Gas for Nabucco link", www.reuters.com/article/idUSLA235892009071O. (Accessed on January 23, 2010).

[185]. Bruce. Pannier. "Turkmenistan: Confusion Reign about Ashgabat Commitment to Nabucco" April 12, 2008, www.rferl.org/content/article/1109563.html. Accessed on January 16, 2010.

[186]. Gal, Luft. Energy Security Challenges for the 21st Century: A Reference Hand Book, p. 258.

behind Iran's possible or proposed participation in project is uncertainty of gas supply from Central Asia. Turkmenistan has other commitments to fulfill and Azerbaijan is negotiating with GAZPROM. Most of Azerbaijan's natural gas export is already done through Russian pipelines. A small amount of gas is provided to Turkey and Georgia. After this, the amount of gas left for supply to Europe would not fulfill European demands for a long time. In this situation, Iran's participation in this pipeline seems to be crucial.

Middle Eastern countries are likely to join the Nabucco pipeline project in near future. As demand would grow in Europe, Iraq, Syria, Egypt would also contribute in this pipeline.

USA & EU Strategy and Major Impediments in the Project

Nabucco pipeline project has strong support of USA, in order to transport gas from Caspian region and Central Asian countries to Europe via Turkey bypassing Russia. It has become a top priority of the US government. Mathew Brayza, Deputy Assistant Secretary of State and C Boyden Gray, envoy for Eurasian energy made a lot of efforts in this regard during Bush government. Recently Richard Morningstar has been appointed Envoy for Eurasian energy. He is continuously in contact with Azerbaijan and Turkey over energy cooperation and Nabucco in 2010.[187] Although Nabucco was not meant for fulfilling US energy needs but it has become a great tool in its energy

[187]. Azerbaijan President Receives US Special Envoy for Eurasian Energy. www.today.az/news/politics.59571.html, (Accessed on February 2, 2010).

strategy.[188] Nabucco pipeline is a great example of great power's struggle for energy security. It obstructs the idea of diversification of routes. Energy security is the objective of US and Europe and diversification of routes is the need of Central Asian states.

There are many unresolved issues between Turkey Azerbaijan and EU that are causing delay to the project. Turkey and European Union signed a new deal for Nabucco in 2009 but many issues remained unresolved blocking the development of such a strategic plan like issue of gas prices. Previously Azerbaijan and Turkey could not reach an agreement over gas transit issue. Turkey demands 15% of Azeri gas passing through Turkey for supply to Europe, and Azerbaijan has not shown its agreement to this demand.

Nabucco was planned in 2002 and it was expected that it would be opened in 2014; however, it does not look possible. Nabucco has caused many suspicions about its success right from the start. There are many doubts whether enough gas would be available for the pipeline to make the 8 billion Euro project worthwhile. Long delay due to shortage of funds has caused threat for the pipeline. Azerbaijan which desperately needs diversification of pipelines has started negotiations with Russia due to delay in Nabucco.

At last, Budapest summit in January 2009 gave the project a new life. Budapest summit was aimed at securing funds for the project. Besides the fact

---

[188]. Jaffery, Mankoff, "Eurasian Energy Security", Council on Foreign Relations Special Report No 43, 2009.

that summit failed in collecting enough funds but it kept the hope for the project alive. European Commission proposed 250m Euros to share for Nabucco. Romania is the strongest supporter of European Union's financing for Nabucco. Romanian Foreign Minister warned that his country would not support EU's proposed southern corridor if it excludes Nabucco.

Last of all the biggest hurdle in the realization of this project is status of Caspian Sea. Turkmenistan's participation in the project is very important to fill the pipeline. However, it would not be possible without the construction of Trans Caspian pipeline. Moreover, without determining the legal status of Caspian Sea the construction of Trans Caspian Pipeline is not possible.

Although Nabucco has a strong political support of Europe, USA and Turkey but above mentioned factors are delaying the project. European Union and United States are not as enthusiastic about Nabucco as they were about BTC pipeline.

In the end, the failure of Nabucco would mean success of Russia's aggressive energy strategy for bringing and uncertain future for Europe's energy supply. In addition, due to possible threat for Trans Caspian pipeline because of Nabucco's failure, it would bring disappointment for Central Asian states who want to come out of Russian orbit.

CONCLUSION

History has evolved in such a way that the Central Asian regions with its unique geological and geographical characteristics have become very important in the twenty first century. It is evident that the great changes in geopolitical situation and emergence of the new independent states in Central Asia and Caspian region have determined a new correlation of interests.

A very important outcome of the fall of USSR was the beginning of an intense political and commercial competition for the huge oil and gas reserves of the newly independent states of Central Asia. These energy resources especially oil and gas deposits have now become the bone of contention in the region.[189] This energy politics is closely related with the struggle of regional and international powers to establish their dominance.

7.1 - THE NEW GREAT GAME: GREAT PLAYERS

The Central Asian region possesses 45% of world's gas reserves and 10% of oil resources.[190] Presence of such huge resources has transformed the Central

---

[189]. Robert, E, Ebel, and Rajan Menon, *Energy, and Conflict in Central Asia and Caucasus*, P. 145.

[190]. Philippe Le Billon. *Geopolitics of Resource Wars, Resources Dependence, Governance and Violence*, P. 138.

Asian region into a crossroad of divergent interests and intense rivalry between different states has begun.

According to some analysts, the new "Great Game" has started in the region. In this "Great Game" the players are great and most notably the negative impacts of this "Great Game" are also great.

Although the stakes involved remain the same as power, influence, security, wealth. However, the players of the "Great Game" are not same. This time besides Russia and regional states Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan some new players are USA, Europe, Turkey, China, Iran, Pakistan and India.[191]

In the Great Game Two of energy politics, energy supply of the world would be severely affected. Because there is a fierce competition going at inter regional and intra regional levels. It also includes multinational conglomerates. Moreover, the fact that Central Asia is a land locked region makes this competition even worse.

From geographical point of view, Central Asia has always been important. When Russia and Briton started interfering in the regional affairs to establish their control, experts commented, "In this part of the world Oil Blood and politics were completely intermingled." Moreover, after more than one and

---

[191]. M Gammer. *The Caspian Region: A Re-Emerging Region*, (New York: Rutledge Publishers, 2004), P. 14.

half century the situation is much different.[192] During Russian empire, Baku was producing half of the world's oil supplies and during Second World War Hitler occupied Baku and its oil field. During Soviet era, these energy resources were owned by USSR.

After the collapse of Soviet Union all the regional states began planning to develop their oil and gas reserves and construct new pipelines to diversify the export routes. Even though, the Soviet oil and gas industry was successfully developed, Soviet Union established a network of pipelines. However, no attention was paid to the development of infrastructure in these states. Instead, their resources were exploited for Soviet interests and pipelines were laid in such a way that each pipeline would run through Russian territory to supply oil and gas to the international consumers. Independence of these states opened their resources for the outside world. Oil and gas of the region attracted the attention of many regional and international players. Gradually these states felt the need to diversify their pipeline network and want to come out of traditional Russian influence. This fact provided foreign players with a chance to interfere in their matters.

US adopted a long-term strategy to shape the region's societies and control the oil and gas reserves and their infrastructures. The biggest question faced by the outside players is how to transport the oil to foreign markets?

---

[192]. Michael P Croissant, Bulent Aras, *Oil and Geo Politics in the Caspian Sea Region*, P. 16.

Therefore, the issue of pipeline routes has gathered enormous importance. Many proposals were presented for the construction of pipelines. Russia does not want to lose its traditional control over the region. The biggest obstacle in expanding US role in the region is Russian hold and its influence especially its pipeline network, that transport oil and gas to Europe. In order to remove this obstacle US proposed such pipeline routes that best serve its interests. Clinton administration fully supported BTC pipeline and it was completed in 2005. This was a major break through in the diversification of pipeline projects. It created threats for the Russian influence in the region. The idea of East-West corridor got momentum and proposal of Nabucco and Trans Caspian pipeline were presented that would completely bypass Russia.[193] US energy policy circumvents Iran also. Iran is another regional player. In order to maximize its traditional influence in the region Iran is expanding energy cooperation with the Central Asian states. US- Iran rivalry is creating problem for major investment in this southern route of Iran. The idea of southern corridor was not a big success. Only a small Korpedzhe-Kurt-Kui pipeline was constructed. Although Iran provides a comparatively shorter route for Central Asia's land locked states to the outside world. In order to avoid both Russia and Iran, US supported the idea of southeastern route for Turkmenistan, Afghanistan Pakistan pipeline. Through this pipeline Central

[193]. Jaffery Mankoff. *Eurasian Energy Security,* p. 26.

Asian, oil & gas would be available for densely populated South Asian markets, especially India and Pakistan. However, security situation in Afghanistan does not allow such a project.

China too is competing for control over pipeline location and construction motivated by the idea of economically via able Central Asia and it's over dependence on Middle East. In Chinese perception, it lacks control over market in times of emergency. China's growing investment in energy fields is very important for its policy in Uighers. Thus, China and Kazakhstan decided to build an oil pipeline in 2006. Later a gas pipeline from Turkmenistan to China was constructed, which was inaugurated in December 2009. Rise of China in Central Asia has created troubles for USA.

American plans in the region propelled Russia and China to build strategic partnership. Such as SCO in which all six Central Asian states Iran, Pakistan, India, and Afghanistan are members. SCO's framework allows cooperation in energy fields. Russia considers China as a balancing factor to counter strategic offensive of America.

Oil and gas are source of wealth and power as far as politics of this region is concerned. It helps in enhancing military power. As strong military power serves the interests of Russia and America in this energy game. The rapidly growing energy requirements have supported the idea of controlling the energy producing zones. In this new Great Game each of the main powers

America, Russia, China, or any other state is supporting a different pipeline project and trying to draw regional states into their sphere of influence. Every one knows that revenues generated by energy trade are crucial for these poor states. However, no pipeline represents the idea of development of these states. If this intense competition were turned into cooperation among all rival forces, it would produce good results for these states. This can be done through following measures.

If Russia stops considering the Central Asian region as its colony. Instead, all states should be assisted in the development of their resources. What US can do in this regard is, it should help these states in the construction of infrastructure. Therefore, they would be able to maximize their income through energy resource. They should be given financial assistance especially in the current economic recession. Poverty, unemployment social unrest, and political instability are major problems of these states. A strong economy is badly needed to overcome these issues. US, Russia, China and Europe should not only help them financially, but they must reduce their political interference in these states. Moreover, they must be free in initiating joint ventures with smaller powers of the region like Iran, Pakistan, or India.

Another important issue is of price mechanism. Central Asian states are not offered competitive prices. Rather they are paid below market prices and

buying countries provide substantial subsidy to their customers. US-Russia and Europe should make efforts to end domestic subsidies in economic sector. United States should provide technical assistance to these states and their private sector to develop program for energy efficiency in commercial and domestic sectors. Along with this, they must be assisted financially to increase social sector spending to cope with higher domestic energy prices.

Efforts should be made in resolving territorial dispute such as Nagorno Karabakh, border disputes and Caspian Sea legal status. This would greatly affect the development process of the region.

Last of all, construction of pipelines and trade infrastructure should not be aimed at establishing ones control and weakening other. Rather it should be aimed at helping these economically weak states to develop.

The only way to meet this objective is greater cooperation among the players of Great Game, because if the great players turn the negative politics into a healthy competition only then these energy resources will prove beneficial for the region and the world at large.

BIBLIOGRAPHY

Akiner, Shirin. *The Caspian Politics Energy & Security*. New York: Routledge Curzon Publishers, 2004.

Aminah, Mehdi, Pervaizi. *Towards the Control of Oil Resources in the Caspian Region.* NewYork: St Martin Press, 1999.

Amirahmadani, Hooshang. *The Caspian Region at a Cross Road: Challenges of a New Frontier of Energy and Development*. New York: St Martin Press, 2000.

Billon, Phillippe, Le. *Geo politics of Resource War: Resource Dependence, Governance,and Violence*. New York: Francis & Taylor publisher, 2005

Bertsch, Gary, K. *Crossroads and Conflicts: Security and Foreign Policy in theCaucasus and Central Asia*. New York: Routledge Publisher, 2000

Bugajski, Jausz, Marek, Michalwski. *Towards an Understanding of Russia: A New European Perspective*. New York: Published by Council on Foreign Relations, 2002.

Capisani, Giampaolo, R. *The Hand Book of Central Asia*. London: I, B Tauris Publisher, 2000.

Croissant, Micheal P, Bulent Aras. *Oil and Geopolitics in the Caspian Sea Region.* USA: Praeger Publishers, 1999.

Ebel, Robert E, Rajan Menon. *Energy and Conflict in Central Asia and Caucasus*. Boston: Rowman & Littlefield Publishers, 2000.

Ferdinand, Peter. *The New Central Asia and its Neighbours*. London: Pinter Publisher, 1994.

Gammer, M. The Caspian Region: A Re-Emerging Region. London: Routledge Publishers, 2004.

Gokey, Bullent. *The Politics of the Caspian Oil*. New York: Pal Grave Publishers, 2001.

Hunter, Shirin, T. *Central Asia Since Independence*. Washington: Greenwood Publication, 1999.

Kleveman, Lutz. *The New Great Game: Blood and Oil in Central Asia*. New York: Atlantic Monthly Press, 2003.

Krumm, Reinhard. *Central Asia: The Struggle for Power, Energy and Human Rights*. Washington: Friedrich-Ebert-Stiftung Press, 2007.

Kuashik, Davendra. *Central Asia in the Modern Times*. Moscow: Progress Publishers, 1970.

Leeuw, Charles, Vander. *Oil and Gas in the Caucasus & Caspian: A History*. New York: St Martin Press, 2001.

Luft. Gal. *Energy Security Challenges for the 21st Century: A Reference Hand Book*. California: Green Wood Publisher, 2009.

Mankoff, Jaffery. *Eurasian Energy Security*. New York: Published by

Council on Foreign Relations, Special Report No. 93, 2009.

Natallia, William Ascher. *The Caspian Sea: A Quest for Environmental Security*. Dordrecth: Kluwer Academic Publishers, 2000.

Pederson, Jay. *International Directories of Company Histories*. New York: St Jones Press , 2002.

Sagers, Mathew. *The Russian Natural Gas Industry in the Mid 1990's Post Soviet, Geography*. New York: Greenwood Publishers, 1995.

Peimani, Hooman. *The Caspian Pipeline Dilemma: Political Game and Economic Losses*. New York: Preager Publisher, 2001.

Perovic, Jeronim, and Robert W Orttung. *Russiam Energy Power and Foreign Relations: Implications for Conflict and Cooperation*. New York: Routledge Publishers, 2009.

Victor, G, David, Amy Jaffe. *Natural Gas and Geo Politics: From 1970 to 2040*. London, Cambridge University Press, 2006.

Global Security: Russia, House of Commons Foreign Affairs Committee, Second Report 2007-08.

RESEARCH ARTICLES

Badalov, Bakhtiyar. 'European Energy Security: Caspian energy as an Alternative," *Center for Eenergy Research*, October 31, 2009.

Comell, Svante, E, Mamuka Tseveteli. "Geo Strategic Implications of the

Baku Ceyhan Pipeline," *Central Asia-Caucasus Institute & Silk Road Studies Program Online,* *www.silkroadstudies.org/docs/publications/2005/BTC/BTC_2.pdf*

Dorian, James, P, Brett, H, Wigdortz. "China and Central Asia's Volatile Mix: Energy, Trade and Ethnic Relations", *East West Center Asia Pacific issue* No. 31 May, 1997.

"Energy Security and G-8 Seminar," *Carnegie Endowment Russia and Eurasia Program,* July 6, 2006.

Fredholm, Micheal. "The Russia Energy Strategy & Energy Policy: Pipeline Diplomacy or Mutual Dependence," *Online* www.da.mod.uk/colleges/arag/document-listings/russian, (Accessed on November 6, 2009).

Fredholm, Micheal. "The Russian Energy Strategy & Energy Policy: Pipeline Diplomacy or Mutual Dependence?', *Conflict studies Research Center, Russian series* issue no. 41, September, 2005.

Ismalizade, Fariz. "Russia's Energy Interest in Azerbaijan", *Institute for the Analysis of Global Security*, GMB Publisher London, 2006,

Kucera, Joshua. "China Enters Asia's Great Game", *Diplomatic Magazine*, February 8, 2010.

Joseph, Ira, B. "Gas Exports: Stranded Resources in a Unique Predicament," *A working paper prepared for the Baker Institute* April,1998 (Accessed

on September 5, 2009).

Karda, Saban. "European Energy Security and Nabucco Occupy a Central Place in Erdogan's Brussels trip," *Jamestown Foundation, Eurasia daily Monitor* vol. no.6, issue no. 12, January 20, 2009.

Lefebvre, Vincent Gagnon. "Geopolitical Rivalry in Central Asia: The new Great Game, Between Russia China and United States', online available at www.international-politics.suite101.com. (Accessed on December 12, 2009.

Marek, Larry, T. "The Caspian Sea Pipeline: A Clear Strategic US Interest," *US Army War College 2007*, BMB Publishers London, 2006, Accessed on November 17, 2009.

Momingstar, Richard. "The Baku-Tblisi-Ceyhan Pipeline: A Retrospective and a Look at the Future", *Central Asia-Caucasus Institute Analyst issue*, August, 2006.

Olcott, Martha Bill. "International Gas Trade in Central Asia: Turkmenistan, Iran, Russia And Afghanistan," *Working Paper no. 28, James A Baker III Institute for Public Policy Energy Forum*, May 2004, (Accessed on November 7, 2007).

Olcott, Martha Bill. "Kazakhstan: Unfulfilled Promise," *Carnegie Endowment Paper* , 2002 (Accessed on September 25, 2009).

Peterson, Alexander. "Nabucco and Trans Caspian Relations," Article

Atlantic Council, September 18, 2009.

Soligo, Ronaldo. "The Economics of Pipeline Routes: The Conundrum of Oil Exports from Caspian Basin," *The James. A Baker III institute for Public Policy, Rice, University*, April, 1998.

Trans Caspian Gas Pipeline, Case Study, Center for Energy Economics," *Bureau of Economic Geology, Jackson School of Geo Sciences*, online Available at http://www.beg.utexas.edu/energyecon/new_era/case _studies/Trans-Caspian_Gas_Pipeline.pdf (Accessed October 21, 2009)

Victor, David. G. "Diversifying Russian Gas Export to Europe," *Working Paper Carnegie Endowment Moscow*, February, 2004 (Accessed on September 4, 2009).

XU , Xiaojie. "Oil and Gas Linkages Between Central Asia and China: A Geo Political Perspective," *James A Baker Institute for Public Policy, Rice University,* April 1998. (Accessed on September 22, 2009).

Yenikeyeff , Shamil Midkhatovich. "Kazakhstan Gas Export Market & Export Routes," Oxford Institute of Energy Studies, 2008 (Accessed on September 22, 2009).

Yuldasheva, Guli. "Geo Politics of Central Asia in the Context of Iranian Factor', *Caucasus Review of International Affairs*, Vol. 2, No.3, Summer 2008.

Journal Articles

Babayev, Mir,yousaf, Mir. "Azerbaijan's Oil history: A Chronology Leading, upto Soviet Era," *Azerbaijan International Summer*, 2002.

Caroe, Olaf. "Soviet Colonization in Central Asia," *Foreign Affairs Journal*, Vol. 32, No. 1 October, 1953.

Fishelson, James. "From Silk Road to Chevron," *The Journal of Russian and Asian Studies*, Issue No.7, Winter, 2007.

Hu, Liyan and Ter Shing Cheng. 'China;s Energy Security and Geo-economic Interest In Central Asia," *Central European Journal of International and Security Studies*, Vol 2, Issue, No. 2, November, 2008.

Kuniholm, Bruce R. 'The Geopolitics of the Caspian Basin', Journal for Asian and Middle East studies, vol. 54, No. 4, Autumn, 2000.

Mehdiyon, Kamyar. "International Law and the Dispute over Ownership of Oil and Gas Resources in the Caspian Sea," *Contemporary South East Asia Journal*, Vol. 94, No.1, January, 2000.

Ogutcu, Mehmet. "Kazakhstan's Expanding Cross Border Gas links: Implications for Europe, Russia China and other CIS Countries," online *at* http://www.dundee.ac.uk/cepmlp/journal

Shah, Baber. "Revival of Trans Afghan Pipeline Project," Journal Institute of Strategic Studies, Spring, 2003.

Steiger, Andrew, J. "Republics of Soviet Central Asia," *Journal of Far*

Eastern Survey, Vol. 15, no. 11, June, 1946.

Volodarsky, Mikhail. "Persia's Foreign Policy Between the Two HERAT Crisis," *Journal of Middle Eastern Studies*, Vol. 2, April, 1985.

REPORTS

Event Report, "From Pipeline Dream to Pipeline: The Realization of Baku-Tblisi- Ceyhan Pipeline," *Belfer Center for Science and International Affairs, John F Kennedy School of Governments, Harvard University.* 2007.

Mankoff, Jaffery. "Eurasian Energy Security," *Council on Foreign Relations* Special Report No. 43, 2009, USA

"Central Asia Energy," *Startfor Global Intelligence Report*, Part 1: Problems Within the Region, December 2, 2009.

CHANNELS

http://English.AlJazeera.net

http://news.bbc.co.uk

NEWS AGENCIES

www.interfax.com

http://www.iran-press-service.com

http://www.itartass.com

http://www.turkmenistan (Turkmenistan news agency)

http://www.euroactive.com

www.forbes.com

www.gasandoil.com

http://www.gazprom.com

www.globalinsight.com

www.hri.org

http://www.ifc.org

www.interactproject.org

www.kmg.kz

http://www/mfa.gov.hu

http://www.nabucco-pipeline.com

http://www.ogel.org

www.oilandglory.com

http://www.rferl.org

http://www.unocal.co

http://www.upstreamonline.com

www.worldbulletin.net

http://www.wsws.org

http://vlib.ive.it/carrie/text/carriebooks/paksoy-6/caeoz.html