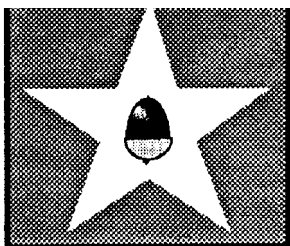


Conflict Studies Research Centre

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The Modern Great Game

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This short paper summarises the current state of play in the geopolitical energy game in the Caspian and Central Asia.

These days the “great game” in Central Asia is not the stirring stuff of strategic imperial power plays but a more prosaic regional jostling for control of the area's energy resources. Some geologists estimate that the oil deposits beneath and around the Caspian Sea rival those of Saudi Arabia. In the event this estimate may turn out to be over-optimistic and to date proven oil reserves are only around 10% of Arabia's. What is not disputed is the region's huge natural gas reserves, thought to be up to 46% of the world's total.

Unsurprisingly, Western energy multinationals are already in the region in strength. But despite its great potential their efforts, to date, have largely been disappointing. These efforts are hampered by the region's chronic political tendencies. All the Central Asian states are controlled by autocracies of varying degrees of repressiveness. They are governed by the same local communist elites that ruled them as Moscow's men in the Soviet era. These local strong men merely morphed themselves into national leaders without missing a beat when the USSR imploded and at worst these countries are now family-run kleptocracies. Since many, if not most, of the territories in which Western energy extraction multinationals operate are ruled by similarly dismal regimes, this in itself should not present an insurmountable problem. But this political climate has exacerbated the tensions between those five countries surrounding the Caspian Sea - Iran, Azerbaijan, Turkmenistan, Kazakhstan and Russia - over how to divide up the energy resource spoils.

The greatest obstacle to any meeting of minds is that there is no precedent to act as a starting point for any negotiations. The existing treaty between Iran and the Soviet Union signed in 1921 is now an historical irrelevance to all the players, except Iran who for reasons of self-interest finds it convenient to remind the other littoral states of the 50/50 split of the sea between itself and the Soviet Union stipulated in that treaty. The 1921 treaty is also inadequate in that it only deals with navigation and fishing, not resource exploitation. A summit of the five state leaders in Ashgabat, the capital of Turkmenistan, aimed at resolving the legal status of the sea, was the latest episode in an increasingly acrimonious series of negotiations. It broke up on 24 April in disarray without any agreement and with the eccentric Turkmen despot, Saparmurat Niyazov, darkly prophesying that the regional competition would eventually lead to bloodshed. Each of the five Caspian states has differing, sometimes conflicting aims.

Iran: President Khatami's negotiating position was the outwardly reasonable one that the Caspian seabed should be divided equally between the five. However his position is motivated by the fact that Iran has the smallest Caspian Sea coastline of the five littoral states and is seeking to secure 20% of the sea by this settlement.

The other four have flatly rejected Khatami's plan. Iranian disappointment at the Ashgabat meeting's failure has been evident in increasingly strident and bellicose denunciations of Russia's manoeuvres in the region, especially its decision to hold military exercises on the Caspian's shores in May 2002. Tehran sees this as part of a strategy by Moscow to reestablish its domination over the region. It has been especially strident in its condemnation of Russia and Kazakhstan's bilateral agreements on their division of oil fields in the Northern Caspian.

Azerbaijan: The state's position is buffeted by contradictory international winds. The one from Washington blows strongest at the moment which, despite the woeful human rights record of the Aliyev regime, seems willing to deal with it to further the US' own extensive strategic interests in the region. A cross wind is coming up from Tehran. The country is dependent on Iranian gas imports (despite its own huge gas reserves it is still has to rely on imports for much of its requirements). For the same reason it has to mind what gusts are coming down from Moscow. The suspension of Russian natural gas supplies by Transneft in early 2002 was a reminder of the power Russia still holds over the region. Added to this the majority of Azerbaijan's oil exports, and those of its CIS neighbours, are transhipped from the sprawling oil terminal at the Russian Black Sea port of Novorossiysk. Azeri attempts to exploit the sea's resources unilaterally have brought it into conflict with its neighbours. It is still in dispute with Turkmenistan over ownership of two oilfields. In January 2002 a BP prospecting team, there at Baku's invitation, was driven out of a disputed area by Iranian gunboats. The Russian energy giant Lukoil has proposed that in return for delivering Russian diplomatic support against Iran, Azerbaijan should grant it a 10% stake in the disputed Alov-Araz-Sarq oil field.

Turkmenistan: President Niyazov has warned that "the Caspian reeks of blood". To an extent this may reflect his own somewhat excitable nature (he has banned opera and ballet and taken the title Turkmenbasy, father of the Turkmens, for himself along with the epithet "the Great") but the failure of the summit does not reflect well on him since it was held at Ashgabat, Turkmenistan's capital. His rejected plan (a re-working of an earlier Russian one) was that each state should have a zone stretching fifteen miles from its coast defined as integral territory and a less defined zone for "economic exploitation" twenty-five miles beyond this. His demand that the issue be settled by international arbitration probably reflects his awareness, despite his bloodthirsty bluster, that his country is the weakest of the five.

Kazakhstan: This state was the least combative of the five. While publicly opposing Iranian demands and supporting Russia, it has in the last few weeks been trying to foster a closer relationship with Iran. This may not be easy because it has already concluded bilateral economic agreements with Azerbaijan and Russia over the Caspian Sea which have been furiously denounced by Tehran. In the week after the Ashgabat meeting Russia and Kazakhstan agreed to the 50/50 split of the development rights of three oil deposits in the North Caspian. A comprehensive bilateral economic agreement between the two over exploitation of the sea is promised soon, which will also incense Iran. The Russian-Kazakh alliance has been deepened by increasingly close military links.

Russia: Russia publicly favours common ownership of the sea by all five, which would maintain its domination of the sea's valuable, if shrinking, sturgeon fisheries. At Ashgabat President Putin supported a five way split of the seabed though not on the equal share basis favoured by Iran, which has fiercely criticised Moscow's blessing of Azeri-Kazakh bilateral economic deals. Iran's subsequent hostility to Russian deals over the sea with Turkmenistan and Kazakhstan has been even

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louder, as has its fury at President Putin's speech given after the failed summit, when he said that Russia would pursue a strategy of bilateral negotiations in the absence of a multilateral agreement on the Caspian's legal status. Russia is probably confident that its clout in the region can wring any concessions it needs out of its erstwhile Central Asian colonies and that Western companies looking to invest in the region will still seek its aid to deal with Central Asian leaders who were all moulded in the Russo-centric Soviet era. Russian oil companies are already major investors in the region in their own right and are looking for new opportunities there.

Pipelines

But political instability is not the most serious problem facing Western investors. It is the region's isolation and poor infrastructure. The only oil and gas pipeline system available to ferry Central Asia's energy riches to market is the inadequate, unreliable and poorly maintained Soviet era Russian one. The lucrative transshipment fees this earns and also the competitive threat the region's huge energy export potential represents to its own means that Russia is not anxious to see this state of affairs improved. Nevertheless Russian companies are queuing up to be involved with the proposed pipeline out of Azerbaijan which would go from Baku to the Turkish port of Ceyhan via Georgia. Lukoil seems especially anxious to become one of the scheme's partners. To some extent the Russians may be bowing to the inevitable and strategically aligning themselves with the route almost certain to win, because it is the USA's favoured route. The USA has vetoed the alternative one, via Iran, to Tehran's almost incandescent fury. The Baku/Ceyhan pipeline came a step closer with the signing of a security agreement in Turkey on 1 May 2002 between Georgia, Azerbaijan and Turkey aimed at coordinating efforts against terrorism, organised and transborder crime. Kazakhstan has expressed interest in both the pipeline system and in attending the follow-up meeting in Georgia. Central Asian press reports conveyed the expectation that Russia and Turkmenistan would join the treaty shortly.

While Iran has, it seems, given up on Azerbaijan, writing it off as a US puppet, diplomatically it remains heavily engaged in the region. In his tour of the Caspian states following the Ashgabat summit Iran's President Khatami pressed his Kazakh and Turkmen counterparts to sign up to an Iranian pipeline system connecting their oil and gas fields to the extensive existing system in the north of his country. His lobbying appears to have enjoyed some initial success, with both of the countries' leaders stating publicly that pipelines to Iran did seem the most economic option. But whether such statements will survive US and probably Russian disapproval is doubtful.

Another power showing increasing interest in the region is China, whose economic growth means its domestic fuel demand is rising by leaps and bounds. The Chinese National Petroleum Company jointly with Exxon and Mitsubishi have prepared a study of a pipeline to transport gas from Turkmenistan to Xingjiang province and from there into the national grid and on to fuel hungry Eastern China. Economically this pipeline from Turkmenistan seems a non-starter. The commercial joint study concluded such a pipeline - some 7,000 km long - would be prohibitively expensive and several large energy companies are now looking at the cheaper option of a pipeline from Russia's huge Siberian fuel deposits to China. Recently China has been showing interest in one of the several proposed pipelines from Turkmenistan via Afghanistan to Pakistan. It has invested over \$190 million

in the Gwadar port project, which will serve fuel tankers. Although this port is on Pakistan's Arabian Sea coast it is still the geographically closest major fuel exporting terminal to resource-poor Japan and South Korea, who are the world's largest energy importers. Although there are other companies bidding, the most likely builder of a pipeline system through Afghanistan is a consortium led by America's Unocal and including companies from Saudi Arabia, Japan, South Korea and Turkmenistan's government. This bid is backed by the US. From the USA's standpoint a pipeline through Afghanistan would be a geopolitical plus. Not only would it cut out Iran altogether and lessen Russia's influence over Central Asian exports but it would reduce OPEC's power by taking away its biggest market. Despite Chinese interest its companies have, for the moment, confined themselves to exploration and development work in Turkmenistan and may have their eyes on future construction of the short pipeline which is to be the Turkmen contribution to the consortium's project.

Conclusions

The Caspian's energy riches have caused a scramble for position in the region. The USA is not surprisingly a dominant player politically and its commercial companies will not be far behind. It will be interesting to see how Russia's energy companies, so long monopolistic masters in this region, react. But America's short-term foreign policy goals risk supporting undemocratic regimes for the sake of expediency. Opposition to these regimes may well devolve to religious groups, not only because the repression of secular dissent will mean they come to represent the only basis which is broad enough to attract widespread support in these clan-based societies but also because they are the most organized and culturally attractive to the populations. This could mean that the US is storing up problems for itself. Any future regime change, especially if the change is to an Islamic theocracy, is unlikely to occur peacefully anywhere in Central Asia.

China's primary aim is commercial, to become the most important transshipment route for Central Asian gas supplies to the Eastern economies. Such a role would not only be highly profitable but with its own energy consumption growing dramatically, strategically important. In parallel, possibly with an eye to its own disaffected Turkic Uighur ethnic minority, Beijing seems to see political value in forging closer ties with all the Central Asian countries. It has, through the Shanghai Cooperation Council, promised Kyrgyzstan and Kazakhstan military equipment and advisers. It also provides increasing economic aid to Turkmenistan, Kazakhstan, Afghanistan and recently Pakistan. As yet, although it has shown diplomatic and commercial interest in the region, China has shown no wish to become the major power there and fill any post-Soviet power vacuum.

Russia too is aiding its former colonies militarily and there is the suspicion that Moscow's attitude towards them, shaped by the Soviet era, is still paternalistic at its most benign. In the short term its Caspian Sea policy will probably be guided by the aim of maintaining its lucrative and, at present, monopolistic role as transshipment point for Central Asia's energy. It will also be anxious that its national commercial interests are not crowded out of the region's energy bonanza by powerful Western multinationals: its own energy giants are enthusiastically involved in existing and proposed projects, particularly pipelines.

These are the main external protagonists in the region but there are several other influential bit part actors as well. Japanese companies are flocking to the area not

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just in view of the trans-Afghanistan pipeline project but also as interested parties in pipeline projects to China. There are such potential financial rewards on offer that Japanese firms probably need no other inducement. But it is noteworthy that for the best part of a century Japan's primary foreign policy goal has been to secure energy supplies. Direct access to Central Asia's energy resources would fulfil this aim. Pakistan also foresees a financial windfall as a result of Central Asian energy exports. It hopes to become one of the main points for the embarkation of these by virtue of the planned pipeline through Afghanistan. Its foreign policy is, as always instructed by its enmity with India. With the fall of the Taliban, Pakistan is looking for new friends to its north to give it "strategic depth", as an anonymous Iranian commentator put it on the Azad website on 15 April 2002. Iran's aims are more opaque. Iranian diplomatic activity in Central Asia seems, apart from an equal five way split of the Caspian Sea, to have been principally directed at promoting a pipeline through its territory rather than through Turkey. US opposition to such a project has excited wounded fury from the Iranian press which probably sits well with the Shi'a branch of Islam's inherent sense of victimhood. Central Asia's energy resources seem destined to put this in some respects undeveloped corner of the world on the global centre-stage, despite itself.

The real sting in the tail of this game is, however, that the players' expectations of fabulous energy wealth may in fact be the result of over-optimism born of hype that has gained an undeserved credibility by virtue of repetition. Not only may some estimates of the region's oil deposits be wildly optimistic but those of natural gas, which indisputably are abundant, are so inaccessible as to be prohibitively expensive to exploit in the current time-frame. So far, though, such concerns do not seem to have deflated any of the protagonists' high hopes. Despite the increasing penetration into the region of Western energy companies, it looks as if it is their Russian counterparts with their regional experience and contacts who are best placed to benefit from the region's energy wealth.

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