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EXPERT OPINION





საქართველოს სტრატეგიისა და საერთაშორისო ურთიერთობათა კვლევის ფონდი
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The political confrontation taking place in Central Asia after the dissolution of the Soviet Union, much like its historical analogy, is being referred to as the “New Great Game.” The historical term – the Great Game – is used for describing the political and diplomatic confrontation between the British and Russian Empires in Central Asia that started in the 1830s. The initiation of the New Great Game was facilitated by the weakening of Russian influence in the region in the 1990s and the search for alternative export routes by the region’s countries.

Central Asian Energy Resource Reserves¹

Of the five Central Asian states only three – Uzbekistan, Kazakhstan and Turkmenistan – possess commercially important oil and gas reserves. Tajikistan and Kyrgyzstan have no oil or gas resources. According to the data for 2016, Kazakhstan’s oil reserves are estimated to be about 30 billion barrels which is 1.8% of the overall world reserves. Of the post-Soviet states, Russia has larger oil reserves than Kazakhstan – 6.4% of the overall world reserves while Azerbaijan’s share is just 0.4%.

The natural gas reserves concentrated in the region are much more impressive. According to the data for 2016, Turkmenistan possesses natural gas reserves of about 17.5 trillion cubic meters which is 9.4% of the overall world reserves. Uzbekistan’s reserves constitute 0.6% while Kazakhstan’s is 0.5%. Of the post-Soviet states, Russia has greater natural gas reserves than Turkmenistan – 17.3% while those of Azerbaijan constitute just 0.6%.

According to the current forecasts, despite the growth of the share of renewable energy sources in global consumption, the demand on oil and gas will still be growing by 2035. Consequently, Central Asia will retain its attractiveness on the global energy market.

Soviet Period – Russian Monopoly

In the Soviet period, the Soviet Union had the monopoly on producing and exporting Central Asian energy resources as it managed the distribution of the resources of the Soviet republics in a centralized manner. At the beginning of the 1990s, Russia was still in control of the export routes of the independent republics of Central Asia as it had inherited the Central Asia-Center gas pipeline system (the overall length of the five lines of these pipelines is 4,892 kilometers), which connects Turkmen gas to the Russian

gas pipeline system, from the Soviet Union. This gas pipeline system was built from 1960 to 1988. The system transports Turkmen and Uzbek gas towards Russia today as well. Its maximum capacity is 90 billion cubic meters per annum.

The Post-Soviet Period – Struggle for Alternative Export Routes

After the dissolution of the Soviet Union, oil became the main export commodity of Kazakhstan while for Turkmenistan, it was natural gas. The main challenge for the energy policies of these countries in the post-Soviet period became developing export routes free from Russian influence which was complicated by the geographic isolation of the region as well as economic and political factors.

Uzbekistan – Local Consumption

Uzbekistan needs its natural gas resources to satisfy the consumption needs of its own population (about 32 million people). The country's main export route is the Bukhara-Tashkent-Bishkek-Almaty pipeline whose construction started in 1967. The pipeline can transport about 22 billion cubic meters of gas but it is quite old and needs rehabilitation. At this stage, South Kazakhstan and Kyrgyzstan are being supplied by the pipeline; however, it is also possible to transport Uzbek gas to China as well.

Kazakhstan – Development of the China Route

In the 1990s, Kazakhstan could only export oil through the pipeline system connecting it with Russia and the railway line towards China. In order to grow its revenues, as well as the level of its energy independence, building new pipelines became the main goal of Kazakhstan's energy policy. The first important export pipeline constructed in Kazakhstan in the post-Soviet period is the Caspian Pipeline Consortium (CPC) which passes through Russia; however, it is a joint project of 11 international partners and, therefore, Russia has no monopoly on its management. The 1,575-km pipeline, whose construction finished in 2001, transports oil from the Tengiz oil field towards the port of Novorossiysk. According to the Kremlin's calculations, this pipeline will enable it to constrict the possibility of exports of Kazakh oil towards Western markets through the South Caucasus, maintaining its monopoly on the Western route.²

At this stage, Russia's goal has been partially achieved as Kazakhstan has no pipeline access to Western markets outside of Russia. That said, Russia could not manage to hinder the construction of new energy infrastructure towards the east. The construction of the 2,228-km Kazakhstan-China oil pipeline was completed in 2009. The maximum capacity of the pipeline is 20 million tons per annum.³ This is the first precedent of China importing oil from Central Asia through a pipeline which is a first important step towards reducing Kazakh dependence on Russia.

The issue of transporting Kazakh oil through the Trans-Caspian Oil Pipeline becomes important from time to time. The idea of creating a Trans-Caspian Oil Transport System (TCOTS) between Kazakhstan and Azerbaijan has been under discussion for years. The project foresees the possibility of the construction of the 739-km Kazakhstan-Caspian Transport System (KCTS) and the construction of the 700-km Trans-Caspian Oil Pipeline to Azerbaijan.⁴ The negotiations regarding the project were renewed in 2017. The supporters of the project hope that the pipeline under discussion will also be connected to the Baku-Tbilisi-Ceyhan pipeline as well as other oil transport systems between Azerbaijan-Georgia-Turkey which will create the possibility of exporting Kazakh oil to Western markets as well.⁵

Turkmenistan – Development of Iranian and Chinese Routes

In the Soviet period, the production of oil and gas in Turkmenistan was controlled by Moscow. At the beginning of the 1990s, Turkmenistan exported its natural gas through a single route, the Central Asia-Center gas pipeline system. After independence, geographic isolation and the Russian monopoly on export routes became one of the biggest hindering factors for the development of the Turkmen energy sector. Given the lack of alternative routes, Turkmenistan was dependent for years on the dictates of price from Russia. In 2003, Turkmenistan was receiving just USD 44 for a cubic meter of gas from Russia while this had grown to USD 58 in 2006. On the other hand, Russia was selling Turkmen gas to Europe at a much higher price.

Early attempts by the President of Turkmenistan, Saparmurat Niyazov, to transport gas to Europe were unsuccessful. In 1998, Niyazov visited Washington where he lobbied for the construction of the Turkmenistan-Iran-Turkey pipeline; however, he failed to get support from Washington due to the sanctions imposed on Iran by the US. Given the lack of support

and in order to reduce its dependence on Russia, Turkmenistan started developing an export route towards Iran. The 200-km Korpėje-Kordkuy pipeline was completed in 1997 with Iranian funding. The capacity of the pipeline is eight billion cubic meters per annum.⁶

Another pipeline was constructed towards Iran in 2010 – the Dauletabad-Khangiran pipeline (182 km) –which can transport about 12 billion cubic meters of natural gas per annum. Despite having two pipelines with Iran, due to the inability to agree on gas prices and the frequently delayed payments, relations with Iran are always problematic. In December 2017, the parties agreed on taking their dispute to international arbitration. Turkmenistan demands that Iran pay USD 1.8 billion.⁷

Given the tense energy negotiations with Russia,⁸ Turkmenistan activated its partnership with China which was concluded with the opening of the Turkmenistan-China pipeline in 2009. With the support of the Chinese National Oil Company, a 1,833-km pipeline connecting Eastern Turkmenistan to the Xinjiang province of China through Uzbekistan and Kazakhstan was built. With this pipeline and its annual capacity of 60 billion cubic meters after the construction of two additional lines, Turkmenistan became an important energy partner for China. This pipeline is the most important pipeline project weakening the influence of Russia on the overall regional export routes.⁹

Trans-Caspian Project and Factors Facilitating its Implementation

Despite the fact that apart from Russia the export routes of Kazakhstan and Turkmenistan also developed towards Iran and China, the search for alternative routes towards the West remains a top priority task for the energy policies of these countries.¹⁰ The idea of developing the Western routes has existed from the 1990s, aiming to reduce political and economic dependence on Russia. At the initial stage, Turkmenistan half-hoped that the Nabucco project would be implemented; however, due to the high costs of the project as well as political confrontations and a lack of support from the European Union, the project is currently no longer on the agenda.

First Caspian Gas in Europe

Despite the unsuccessful lobbying on the part of Nabucco, the Trans-Caspian Gas Pipeline did not lose its importance. In the long-term perspective,

several factors could facilitate the implementation of the project. Firstly, it is important that in 2020, for the first time, Europe will receive Caspian gas from Azerbaijan through the new pipeline system which will bring together the South Caucasus Pipeline (SCP), the Trans-Anatolian Pipeline (TANAP) and the Trans-Adriatic Pipeline (TAP). In the case of the construction of the Trans-Caspian Gas Pipeline, this would enable exports of Turkmen gas to Europe.

In addition, the construction of the Trans-Caspian Gas Pipeline could be greatly facilitated by the opening of the East-West pipeline on the territory of Turkmenistan in 2015. This pipeline will connect the gas-rich eastern parts of Turkmenistan to the shore of the Caspian Sea which will create the possibility of exports towards Turkey and Europe. The construction of the East-West Pipeline was further accelerated by the export crisis which caused Turkmen revenues to decrease. In 2014, the exports of gas from Turkmenistan to Russia fell from 11 billion cubic meters to four billion cubic meters while stopping altogether in January 2016. Iran also plans to decrease imports of Turkmen gas as it plans to increase its own production after the easing of sanctions. The enactment of this new and domestically important pipeline could become an important facilitating factor for the construction of the Trans-Caspian Gas Pipeline.¹¹

European Union – Development of the Southern Gas Corridor

One of the goals of the European Union in terms of the strategy of the diversification of energy resource imports is to ensure the production and transportation of Caspian basin resources. Numerous bilateral and multilateral initiatives have been put forward by the European Union since 1995; however, there have been no specific results. The activation of Europeans became noticeable during the 2006 and 2009 gas crises between Russia and Ukraine when reducing the dependence on Russian gas and the Ukrainian transit system became part of the EU's strategy. The 2014 events in Crimea also facilitated the increased activities by the European Union as Europe gets half of its Russian gas purchases through Ukraine.

One of the priorities for the European Union is the development of the Southern Gas Corridor which will connect the EU market with the Caspian Sea region as well. In terms of the project, Europe will receive the first Caspian gas from Azerbaijan in 2020. However, at this stage the

European Union will only be receiving ten billion cubic meters of gas from the Corridor. Hence, it is important to implement the Trans-Caspian Gas Pipeline project which would also transport Turkmen gas via the Corridor. In the long-term perspective, only Turkmenistan has enough gas to fill the Corridor. The priority of the European Union is also to fully and timely activate the Corridor.¹²

USA – Support for Alternative Projects

The United States does not need the energy resources of Central Asia for its own consumption. Political rather than economic interests are much more important for Washington in this case. After the dissolution of the Soviet Union, it has been the unwavering position of Washington that Russia must not have the monopoly on the transportation of Caspian basin resources and none of the pipelines should pass through Iran. According to the assessment of an American diplomat and one of the architects of the US energy policy towards the Caspian, Richard Morningstar, the United States wants to ensure that Caspian basin energy resources are developed by US companies as well as those from the countries friendly to the United States.¹³ Past experience shows that US support is important for the implementation of energy projects in our region. The Baku-Tbilisi-Ceyhan project, despite opposition, was still implemented due to direct involvement of Washington. In the case of the Trans-Caspian project, Washington's support will also be vital.

Challenges to the Implementation of the Trans-Caspian Project

Despite the wishes of the Central Asian and Western states to ensure the transport of Central Asian energy resources through the Caspian and South Caucasus towards the West, the Trans-Caspian project still faces numerous challenges.

Geographical Barriers

Turkmenistan and Kazakhstan are geographically isolated countries which make them dependent on transit countries. Due to the geographical isolation, the export of energy resources from the region requires the implementation of costly and complicated pipeline projects which would pass along the Caspian Sea floor and then through transit countries.

Legal Dispute between the Coastal States

After the collapse of the Soviet Union and the renewal of the production of energy resources in the region, a confrontation arose between the coastal states about the delimitation of maritime borders. The sea belonging to two states (the Soviet Union and Iran) turned into a sea that had to be divided between five countries (Russia, Iran, Kazakhstan, Azerbaijan and Turkmenistan). Given the fact that the largest part of the energy resources ended up in the waters belonging to Kazakhstan, Turkmenistan and Azerbaijan, Russia and Iran oppose the implementation of projects by the neighboring states that would manage to supply Western markets without their participation.¹⁴ Despite the agreement about the legal status of the Caspian Sea, it is unlikely that Russia's position on this issue will change. On 5 December 2017, the Minister of Foreign Affairs of Russia stated that all five Caspian states had agreed on all important issues and the Convention on the Legal Status of the Caspian Sea will be ready for signing in 2018.¹⁵

Environmental Issues

Against the Trans-Caspian project, Russia and Iran are actively using environmental issues connected with the implementation of the project. According to their assessment, the construction of a pipeline on the sea floor requires complicated technological work which will negatively influence the environment.

Bureaucracy and Authoritarianism

Due to problems concerning doing business in Central Asia, it is difficult to attract investments for large-scale projects. However, it should be noted that despite authoritarian governance and corruption, the possible gains from energy projects are so high that leading energy companies are still trying to establish business connections in the region.

Security of the Transit Corridor

An important challenge for the transportation of Central Asian energy resources towards the West are the security problems in the South Caucasus and Turkey. The Turkish part is the most vulnerable in terms of terrorism where explosions took place on the pipelines coming from Azerbaijan in 2008 and 2015. The vulnerability of the pipelines was also revealed during

the 2008 Russia-Georgia war when a bomb fell near a pipeline in Georgia. The Nagorno-Karabakh conflict is also a challenge for the region's transit potential. The Nagorno-Karabakh zone, from the ceasefire line, comes as close to a pipeline as 13 km. Due to the aforementioned security risks, even though the transit of energy resources has not yet been under threat, Russia could always use the vulnerability of Turkey and the South Caucasus to hinder the implementation of new projects.

Competing Routes and Low Prices

Another threat for the Trans-Caspian Gas Pipeline project is the low price of natural gas and the construction of competing projects. Gazprom, for example, started building the off-shore part of the Turkish Stream in May 2017. This pipeline will first transport Russian gas to Turkey and then to Europe¹⁶ which could lower the demand on Caspian gas. In addition, the implementation of the Trans-Caspian Gas Pipeline becomes more expensive given the low prices on natural gas which, in the short-term perspective, puts the profitability of the project into question.

China – A New Powerful Player

According to the forecast of the International Energy Agency, China's demand for natural gas, which was 85 billion cubic meters per year in 2008, will increase to 395 billion cubic meters by 2035. In the case of Europe, the demand, which was 555 billion cubic meters in 2008, will increase to 628 billion cubic meters by 2035.¹⁷ In order to satisfy the growing demand on gas, China has started utilizing the Central Asian energy sector. As a result, China is becoming an important competitor not only to Russia but also to the EU in terms of the imports of Central Asian energy resources.

Political Opposition

The main opposition to the transit of Caspian resources towards the West is Russia and Iran. Both countries are actively using diplomatic, political or military instruments against the Western route. For Russia, it is clear that Turkmen gas could compete with Russian gas on the European market. Hence, Moscow is not hindering Turkmenistan and Kazakhstan in their cooperation with China and Iran in this regard as these countries are considered less worrying competition for Moscow.

Iran, which plans to increase its own energy exports after the easing of sanctions, is itself interested in transporting Turkmen gas which it is currently unable to do due to the lack of infrastructure. In the early 1990s and 2000s, Iran also used to express its dissatisfaction with military maneuvers.

Georgia's Transit Role

Georgia's favorable geographical position – its proximity to the Black Sea, the Caspian Sea and Central Asia – makes it an important transit player in current and future energy projects. Since the 1990s, Georgia has been considered as an alternative transit route by the US and the European Union, avoiding Russian territory. The first stage of the Fourth Corridor of energy resource transportation (the other three ensure energy resource transport from Africa/the Middle East, Russia and Norway) was successfully implemented with the construction of the Baku-Tbilisi-Ceyhan oil pipeline, the South Caucasus Pipeline (Baku-Tbilisi-Erzurum gas pipeline) and the Western Route Export Pipeline (Baku-Supsa oil pipeline). The second stage could be the transportation of Kazakh and Turkmen energy resources through the expansion of the transport systems already existing in Georgia or by constructing new ones.¹⁸

Principal Conclusions

- Turkmenistan's natural gas resources which constitutes 9.4% of the overall world reserves have been a sphere of special interest for the importing countries since the 1990s. Given the fact that, according to the forecasts, the demand on natural gas will increase in the upcoming decades, Central Asia will retain its attractiveness on the global market due to its energy resources.
- In the Soviet period, the Soviet Union held the monopoly on the production and exports of Central Asian energy resources, managing the distribution of resources among the Soviet republics in a centralized manner. At the beginning of the 1990s, Russia still retained the monopoly on the export routes of the energy resources owned by the now independent republics of Central Asia due to which the energy policies of these countries were still under Russian influence.
- At the beginning of the 1990s, the weakening of Russia's influence on energy export routes became the cornerstone of the energy policies of

Kazakhstan and Turkmenistan. In order to increase revenues and energy independence, these countries set out to diversify energy export routes which meant, among other things, building pipelines bypassing Russia. As a result of the diversification policy, export routes, independent of Russia, were enacted towards China and Iran which reduced the level of dependence of the Central Asian republics on Russia.

- In recent years, China has become an important player in terms of energy in the region as a result of which the level of dependence of Turkmenistan on China will increase in the long-term perspective. The growth of China's role in the region will facilitate the countries of the region to feel freer in their negotiations with Russia and ask higher prices for their resources. At the same time, given its activities, China is also becoming a competitor for the European Union in terms of energy imports from Central Asia.
- The goal of Russia's Caspian policy is to not allow the development of alternative routes for importing natural gas from Central Asia to Europe, including through the South Caucasus, as it would weaken Russia's influence on the European market. In this regard, the exports of energy resources to Iran and China from the region are considered to be less of a threat to Russia.
- Due to the gas crises concerning Russia and Ukraine during the past decade and in order to increase the security of gas imports, as well as reducing the dependence on Russia, the issue of the diversification of imports of energy resources has become important in Europe. In this regard, the development of the Southern Gas Corridor has become one of the priorities for the European Union as it would connect the EU to the Caspian region. The first stage of the development of this Corridor will be finished in 2020 when Europe will receive Azerbaijani gas through a pipeline for the first time. Despite numerous challenges with regard to the transportation of Turkmen gas to Europe, the successful implementation of the first stage of the Southern Gas Corridor will, in the long-term perspective, also increase the chances for the construction of the Trans-Caspian Gas Pipeline.

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