

New players, rules and conditions for the Caspian energy great game

As the International Energy Agency (IEA) warned in November 2010, the world is confronted with “unprecedented uncertainty” for maintaining global energy security, due to the present worldwide economic crisis, the twin challenges of climate change and global energy security, as well as the huge energy demand of Asia and in particular China. According to the IEA’s central scenario, the so-called ‘New Policies Scenario’ of 2011, world primary energy demand will increase by 40 percent between 2009 and 2035, with the non-OECD countries accounting for 90 percent of the projected increase.

Frank Umbach



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Eurasia and geo-economic developments

Thus in Greater Central Asia, there are three periods of epigenetic development (i.e., each building on or accumulating from what went before), starting from the basis of the Russia-Turkmenistan-Kazakhstan triangle, and then successively adding the US, then the EU, then China, as fourth vertices, consecutively driving the evolution of the network as a whole. In the realm of Eurasian energy development, this means that the years 1993-1998 were marked principally by manifold proposals for new resource explorations and development, and pipeline construction as new possibilities for new patterns of international relations began to percolate from events on the ground, relatively free from the hierarchical constraints that characterized the bipolar Cold War system. The years 1999-2004 then saw the coming-to-life of some of those projects and the death (or suspended animation) of others; while from 2005 to 2010, some of those projects that were successfully born began to thrive.

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HENCE, NEW LARGE SCALE INVESTMENT is required urgently at a time when geopolitical risks are rising: the high concentration of the world’s remaining oil and gas reserves in an ever-smaller number of potentially unstable producer states and regions, makes the future supply of energy increasingly uncertain. The perceived “unprecedented uncertainties” for maintaining global energy security are also the result of those non-economic factors such as the political stability of many producer states. Thus the Arab revolutions have caught the entire international world by surprise and led to supply disruptions of oil and gas to Europe and other parts of the world.

Understandably, Russia has tried to use the opportunity to present itself as a harbour of political stability for its oil and gas supplies to Europe, on which the EU can rely for its future energy security. However, and quite contrary to its self-portrayal, as a result of the Russian-Ukrainian energy crisis in 2006 and in 2009, Russia (as Europe’s most important energy partner) has been perceived as a rather unreliable and assertive partner, which uses the asymmetric interdependence with the EU-27 and its energy dependence on Gazprom as a foreign policy instrument to enforce its geopolitical influence in the Eurasian landmass.

While the global energy markets are more than ever determined by developments outside the OECD countries, particularly in China and India, Central Asia and the Caspian Region (CACR) with its regional oil and gas reserves have become increasingly important for the global energy security. Although these regional oil and gas reserves cannot replace the Persian Gulf (in terms of, e.g., oil supply), the region has become a strategically important fossil fuel supply base and has been identified both in the EU-27 as well as China at least as a ‘supplementary supplier’ and a rising diversification source for their oil and gas imports.

In recent years, the states of CACR have diversified their energy exports and energy foreign policies to China, the EU, and other energy partners. These new strategic trends, regional developments, and economic-political interdependencies offer new prospects, for both the regional states and their energy partners (Russia, China, Japan, the US, and the EU) in their energy and foreign policies. But they also create new challenges and problems when coping with the diverging interests of all sides in an increasingly more competitive international arena.

International regions today enjoy an increased relative autonomy of the general international system in comparison with the bipolar Cold War system. Not only have new international regional subsystems emerged, but also new categories of such regions as well; littoral basins, for example, have become more important, and regional international systems are more and more densely linked to one another. One key aspect, and the irrefutable geo-economic significance, of such littoral basins is international energy pipeline construction. Their profile in international public policy issues in the broad sense continues to grow through issues such as ecological security, applicable legal regimes, and the need to put cross-sea trade by the littoral states on a firm and regular footing.

The effects of these geo-economic developments upon international politics, traditionally conceived in terms of alliances and military power projection, is really a question of general approach. For example, China has recently emerged as an important player in the geo-economic configurations that govern, and also result from, the development and export of hydrocarbon energy resources in the region of the Caspian Sea basin. However, that increased profile would be impossible without the state-financial resources at Beijing’s disposal, which were aggregated over years of antecedent US government deficit spending. This development highlights, in particular, new aspects of world politics and economics that must be taken into account if their further evolution is to be projected.

Specifically, for a comprehensive geo-economic analysis, perhaps more closely approaching ‘critical geopolitics’, it would be necessary to engage in a much longer exercise, including not only traditional military-diplomatic as well as newer economic dimensions, but also financial instruments (which are distinct from economic ones), as well as ideological or political-cultural elements. In view of the lengthy advance planning that is necessary for energy geo-economic projects, and the emphasis that a comprehensive approach might put on ideologically or culturally constrained

Russia’s declining geopolitical influence in the CACR

At first glance, Russia’s position appears stronger than ever. During the last decade, Russia’s strategy of increasing its own and Gazprom’s market leverage in the European gas market, by contractually locking in supplies, building new pipelines bypassing transit states, buying into European critical gas infrastructures (i.e., distribution system) and maintaining Gazprom’s monopoly over Russian exports, had mostly been successful. In 2010, thirteen European countries still relied on Russia for more than 80 percent of their total gas consumption; a total of seventeen countries were dependent on Russia for more than 80 percent of their gas imports.

Moreover, the IEA has forecasted that Russia’s projected increase of its gas production between 2009 and 2035 is greater than in any other gas producing country, accounting for no less than 17 percent of the worldwide gas supply increase. More recently, Gazprom officially opened its Nordstream pipeline last November, with a future volume of 55 bcm. This has given Russia more political and economic leverage over Ukraine in its negotiations with Gazprom over gas prices, but also with regards to Ukraine’s willingness to sell its Gas Transport System (GTS) pipeline network, and to join the Moscow-led Customs Union. Until recently, Ukraine transported around 80 percent of Russian gas exports to Europe via its own transit pipeline network.

In 2011, the Kremlin successfully forced Belarus to join the Customs Union and to sell the remaining 50 percent of its prized pipeline company Beltransgaz, to Gazprom, which also controls the entire Belarusian refinery network. In response, Belarus has received a more generous discount on Russian gas supplies, accounting now for US\$286 per 1,000 cubic metres (cm) in contrast to Ukraine’s imported gas from Russia at a rising price of more than US\$400 per 1,000 cm.

At the same time, however, alongside the growing LNG markets, which further pushed globalization, Gazprom has largely overlooked or has marginalized the development of unconventional gas in the US, particularly shale gas. The release of unconventional gas resources has triggered a revolution in the global gas markets. Unconventional gas not only transformed the US energy market, and especially the natural gas market, but it also was the tipping point of a fundamental change in global gas markets.

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perceptions of the future, the still limited availability of non-hydrocarbon energy sources would not alter the fundamental direction of the analysis presented here, even if they became more available. This especially so in view of the relative non-substitutability of oil and gas fuels in the existing industrial plant and consumer commodities in the world economy.

The logic of the complex-scientific approach regards the three phases from 1993 through 2010 (emergence, autopoiesis, and coherence; or more colloquially, bubbling up, settling down, and running deep) as one large ‘meta-phase’ of emergence (bubbling up). This is followed by a ‘meta-phase’ of autopoiesis (settling down, 2011-28), which we are in fact now entering, and which in turn is also subdivided into three phases, each lasting for about five to six years. The emerging phase of the ‘meta-phase’ would thus run from 2011 through 2016, followed by the autopoiesis phase (2017-22) and the coherence phase (2023-28). After which time we could predict that a ‘meta-phase’ of ‘running deep’ (coherence), subdivided again into three phases, will follow from 2029 to 2046.

Other analysts of international relations, using different methods, have independently also projected the years around 2040 to be the next period of global-systemic transformation. This will undoubtedly also be felt in the Caspian Sea basin, and also in the geo-economics of the region. The central phase in the nested progression outlined above is clearly the middle phase of the middle meta-phase, i.e., 2017 through 2022. The projects today being planned for construction and entry into service during those years will therefore be the defining axes of development for the entire energy production sector from Central Europe to Central Asia, for the whole half-century following the disintegration of the Soviet Union.

Robert M. Cutler is a senior researcher at the Institute of European, Russian and Eurasian Studies, Carleton University, Canada (rmc@alum.mit.edu)

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An increase in incremental US non-conventional shale gas production coincided with other critical economic, political, and technological factors – the drop in demand linked to the global recession and the arrival of new LNG delivery capacity – that all together created a sudden global ‘gas glut’. It laid the foundation for an expanded role of natural gas in the world economy. The IEA has already envisaged a ‘Golden Age of Gas’, during which it expects that around 35 percent of the global increase in gas production will come from unconventional gas sources. Between 2008 and 2035, it has forecasted an annual growth of 1.4 percent of natural gas consumption (altogether 44 percent), thus making it the only fossil fuel for which demand is higher in 2035 than in 2008.

While the EU is striving towards a liberalization of its energy markets, since 2001 Russia has been moving in the opposite direction. The EU’s declared energy and foreign policy interests in the Black Sea region and CACR have become another field of competing interests between the EU and Russia.

New players and rules

At the same time, China has intensified its foreign energy policies to CACR as the result of a rapidly growing demand for energy, deteriorating prospects for major new energy discoveries in their own country, and rising oil and gas imports. The states of CACR themselves have diversified their energy exports, as well as energy foreign policies, to China and other energy partners. Azerbaijan and Turkmenistan have become not only more independent and self-confident, but are changing the regional conditions of the ‘Great Game’ as two recent examples highlight.

Firstly, on 26 December 2011, Azerbaijan and Turkey signed a memorandum of understanding (MOU) to build a Trans-Anatolia Gas Pipeline (TANAP). Since then, the pipeline competition between the Nabucco, ITGI, TAP, SEEP, and the South Stream gas pipelines has increased. With TANAP being a game-changer, many observers believe that the original Nabucco project is no longer realistic. But a shorter Nabucco pipeline version or alternative project might become economically more realistic for the EU’s intention to get direct access to Caspian gas fields, circumventing Russian territory. Furthermore, the TANAP pipeline will give Azerbaijan direct access to European downstream markets and make it very price-competitive in Europe. In particular, this project would compete with future high-priced Russian pipeline gas from its frontier super-costly new gas fields in Yamal, Shtokman, or other Siberian or even Arctic gas fields. The TANAP project also indicates that Azerbaijan will control its European gas exports largely itself and, thereby, enhance its regional influence and geopolitical leverage.

Secondly, the EU’s direct involvement, since the autumn of 2011, in negotiations with Turkmenistan to accelerate the building of a Trans-Caspian gas pipeline has led to harsh criticism of Moscow. The Kremlin has warned both the EU and Turkmenistan against meddling in the affairs of the Caspian Sea and its traditional sphere of influence. The diplomatic war between Moscow and Ashgabat has escalated since last November when Gazprom cast doubts about Turkmenistan’s gas reserves. The Turkmen government not only dismissed those ‘unprofessional’ arguments, but has viewed Russia’s propaganda campaign as an attack on its independent energy policies and insisted on diversifying its energy exports. In response, the Kremlin and Russian



Above: Azeri oil drilling island, Caspian Sea.
Below: On the outskirts of Sumgayit by the Caspian Sea, Azerbaijan.
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commentators even threatened Turkmenistan and the EU with military force. In regard to the cooperation between the EU and Turkmenistan, the EU Commissioner for energy, Guenther Oettinger, noted on 24 January 2012 that the negotiations with Ashgabat are very ‘constructive’ and ‘intensive’ and could already lead to a final decision by June 2012, or at least before the end of the year.

Russia has insisted on a common definition of the legal status of the Caspian Sea and demands that no Trans-Caspian pipeline should go ahead without the approval of all five coastal states. In its view, all greater energy projects threatening the environment of the Caspian Sea need to be approved by the consensus of all littoral states. But Turkmenistan, Azerbaijan, the EU, and the US have all denied those demands. They have noted that only a bilateral agreement between Ashgabat and Baku is sufficient to build a Trans-Caspian pipeline, which will include international standards of environmental protection. It is clear that Russia has no interest in giving up its present gas export monopoly for Caspian, and in particular Turkmen, gas. Hence it also has no interest in solving the legal status of the Caspian Sea for the time being.

While Russia seeks to continue preventing Turkmenistan from forging closer energy relations with the West and to control the country’s energy ties to China and Iran, the Turkmen government prefers to use its vast gas resources

to maximize its energy revenues, balance its foreign relationships with a neutral policy, and avoid Russia’s alliance system such as the Collective Security Treaty Organization (CSTO) and the Eurasian Union.

At the same time, CACR itself has become increasingly fractured because the regional states have developed their national energy, economic and foreign policies in very different directions and with contrasting, and often competing, perspectives. Hence the CACR has increasingly become just a geographic, but ever-less coherent, political-economic entity and common or united political-economic actor.

However, as the core and hub of economic integration of the Eurasian super-continent, the Black Sea region and CACR will play a key role in the development of a transcontinental transport infrastructure, linking Europe with Russia and Asia for the rapidly expanding trans-continental Eurasian trade and capital flows.

Frank Umbach is currently senior associate and head of the International Energy Security Program at the Centre for European Security Strategies (CESS) GmbH, Munich-Berlin and associate director of the European Centre for Energy and Resource Security (EUCERS), Department of War Studies, King’s College London (umbach@cess-net.eu)

