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Competition for pipeline export routes in the Caspian region: The new Great Game or the new Silk Road?

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Abstract

It has often been argued that since 1991 Central Asian and Caspian region had become a playground for the New Great Game between the global superpowers. Analysing the geopolitical competition for Caspian energy resources, this article argues that the New Great Game framework has its limitations as it fails to incorporate the active role played by the Newly Independent Caspian (NIC) states. One cannot deny the fact that the strategic competition among the geopolitical powers for hydrocarbon resources of the Caspian shaped the trajectories of the new pipeline routes. At the same time, the NIC states, namely, Azerbaijan, Kazakhstan and Turkmenistan benefited from the competition as they managed to diversify their export options, achieving greater political and economic independence. In the end, the interaction between the NIC states and energy consumers has led to strengthened energy cooperation along the same area where the ancient Silk Road crossed East Asia, Central Asia and Europe. The findings support the theoretical argument of the article, which stipulates that in exploring the developments in the Caspian region both realist and liberal theories of international relations should be applied in conjunction.

Introduction

The competition for energy resources of the Caspian Sea had often been named the “New Great Game,” for which the Caspian region and Central Asia had been the playground. The original concept of the Great Game, introduced by Rudyard Kipling, takes its name from the strategic rivalry between the British and Russian Empires over the control of territories in Eurasia during the 19th century. In the aftermath of the Soviet dissolution, the New Great Game in the Caspian region involved multiple actors such as China, Russia and the U.S.

The U.S. endorsed its East-West Energy Corridor initiative, which diverts hydrocarbon resources of the Caspian region to the West, effectively bypassing China, Iran and Russia. Moscow had been attempting to maintain its influence in the region through different mechanisms, including regional integration within the framework of the newly created Eurasian Economic Union. China was a latecomer in the Caspian region as its investment poured in the region only from the late 1990s. Nevertheless, Beijing managed to achieve significant participation in several oil projects in...
Central Asia and established direct supplies of energy from the region. Furthermore, in 2013, China announced “One Belt, One Road” initiative, which is projected to foster trade and energy cooperation Asia, Europe and Central Eurasia.

As the competition between the key players attracted increased attention, the Great Game narrative was widely applied in the analysis of contemporary Central Asian space. At the same time, several authors have questioned the validity of the application of the concept of “the Great Game” in relation to the interactions in Central Asia. However, most publications assessed relations between Central Asian states and global superpowers in general terms, without reference to cooperation in specific sectors. This article aims to fill this gap and evaluates the development of energy resources of the Caspian energy-rich states and their relations with major geopolitical actors in the region.

Applying the theory of realism in international relations, this article will attempt to illustrate how the geopolitical struggle between the main actors in the Caspian region has expressed itself in different forms over the two decades after the end of the Cold War. However, as this article will argue, applying the realist framework may not be sufficient in exploring interactions of actors in the Caspian region as it focuses primarily on pursuit of power and geostrategic interests by dominating actors.

To look from an alternative perspective, this article employs the liberalist theory to analyse the development of energy resources of the region focusing on mutual benefits and international cooperation. To some extent, the NIC states have been able to take advantage of the environment of “geopolitical pluralism” (as defined by Brzezinski) although these countries were constrained by other factors such as landlocked geographic position as well as limited access to capital and technology.

Overall, as this article will argue, the geopolitical competition between the powerful actors had been beneficial for the NIC states as they utilised this rivalry to balance the presence of global powers and to diversify their energy export routes. Particularly, more visible presence of China in the second decade after independence allowed the Caspian states to “play the balancing act” between the political powers in the region. Furthermore, the geopolitical rivalry between global powers positively affected the NIC countries’ bargaining powers in relations with investors.

The pre-independence and early independence period

With the demise of the Soviet Union in 1991, the three NIC states faced the challenge of delivering their oil and gas exports to world markets. All three NIC countries are landlocked, without direct access to oceans, which makes it impossible to ship to world markets directly from production sites. To deliver oil to nearest distribution points, the new pipelines had to be constructed. The existing pipeline system of the Soviet Union was built in such a manner that oil and gas from the Caspian region had to be exported to Russia first and then to world markets.

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The Soviet pipeline system was not intentionally designed to limit transportation of the Caspian hydrocarbons to global markets. During the Union of Soviet Socialist Republics (USSR) era, most of oil and gas from Azerbaijan, Kazakhstan and Turkmenistan was utilised for domestic use. For example, oil from West Kazakhstan was piped to refineries within a short distance in the country or to South-East Russia and then further distributed among the Soviet Republics. Similarly, crude from Baku was mainly transported to nearest refineries in Grozny. Since the NIC states are landlocked, pipeline routes through Russia constituted a natural choice as it allowed exports without paying transit fees to third countries.

In the post-1991 period, global and regional powers pulled the NIC countries in different directions. The three Caspian states had similar choices for future pipeline routes. First, the “Western route,” lobbied by the U.S. and the EU, was designed to deliver oil and gas from the NIC countries to Georgia and Turkey bypassing Russian and Iranian territories. Accordingly, the East-West Energy Corridor initiative included the construction of energy transportation infrastructure connecting Caspian region with Turkey through the Baku-Tbilisi-Ceyhan (BTC) the South Caucasus pipelines. It was further planned to build Trans-Caspian pipelines, connecting East Caspian states (Kazakhstan and Turkmenistan) with Baku.

Second, the “Southern route” through Iran towards the Persian Gulf was the shortest and arguably the cheapest way to deliver Caspian hydrocarbons to global oil markets. However, this option was complicated by the determination of the U.S. and its allies to isolate Iran. Meanwhile, the “Eastern route” was offered by China, which by the beginning of the 21st century gradually turned into one of the biggest energy consumers. Central Asian states’ desire to diversify their export routes matched with China’s struggle to diversify its energy supplies. In the meantime, Russia actively advocated the “Northern route,” offering Azerbaijan and Kazakhstan access to Novorossiysk port in the Black Sea.

After the collapse of the Soviet Union, the domestic consumption in the NIC states remained at low levels, and the question of export routes arose almost immediately. The capacity of existing pipelines was clearly not enough to export increasing volumes of Caspian oil and gas. Therefore, both governments of the NIC states and foreign multinationals were convinced that the new export lines had to be constructed. The crucial issue was around the directions, through which the Caspian oil and gas will be delivered to markets. Despite the urgency of the matter, it took more than a decade for each Caspian state to complete the new export pipelines.

The main geopolitical powers in the region

The U.S. influence in the Caspian region

The U.S. strategy in the Caspian region pursued multiple objectives. First, it sought to protect its commercial interests by mitigating risks related to the delivery of Caspian hydrocarbons to global markets by multinational corporations. Second, the U.S. limited the Russian and Iranian influence in the region by supporting pipeline projects, which bypassed the latter two countries. In achieving these objectives, Washington introduced the East-West Energy Corridor Initiative, which was designed to connect Central Asia and South Caucasus. In April 1998, the U.S. Secretary of Energy Federico Pena stated that the Corridor is designed to “link the countries in the region to the west.” He further summarised the key projects in the region, supported by the U.S.:

Our East-West Energy Corridor initiative principally supports the construction of trans-Caspian oil and gas pipelines running under the Caspian Sea, linking the countries on the western Caspian shore – Kazakhstan and Turkmenistan – with those on the west, starting with Azerbaijan in the coastal city of Baku. [...] Development of oil and gas pipelines along

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this corridor will serve as the glue that binds all of these countries together as it will both encourage and require regional cooperation, at many junctures and on many levels.10

Numerous official visits of the U.S. government officials to the region illustrate an active involvement of Washington in promoting energy cooperation with the Caspian states. In April 1995, the U.S. Energy Department Deputy Secretary William White visited Central Asia and Caucasus states to discuss issues with respect to pipeline projects. White expressed strong support for the BTC project stating that there is enough oil in the Caspian to feed the pipeline to Mediterranean as well as the pipeline to the Black Sea through Russia.11 In October 1998, presidents of Turkey, Georgia, Kazakhstan and Uzbekistan signed the Ankara Declaration, expressing the willingness to cooperate on the BTC. The U.S. Secretary of Energy Bill Richardson attended the summit and expressed strong support for the project.12

The BTC pipeline was named “America’s most important Eurasian strategic initiative since the Soviet collapse.”13 In addition, the U.S. actively supported the construction of the South Caucasus pipeline. This pipeline together with the BTC route constitutes a part of the East-West Energy Corridor Initiative. Although Turkmenistan was initially reluctant to support the East-West Energy Corridor initiative openly, it readily accepted the U.S. proposal to construct the TAPI pipeline. However, the biggest obstacle for realisation of this “South Eastern route” project was instability in Afghanistan.

The U.S. was cautious about strengthening of Iran’s influence over the supplies of the Caspian oil.14 Therefore, the TAPI pipeline project prevented the construction of Iran-Pakistan-India gas pipeline. The U.S. opposition was the main obstacle in building pipeline projects to the Persian Gulf. In 1996, the U.S. introduced the Iran-Libya Sanctions Act, which threatened to apply commercial sanctions against any company that invests more than $20 million in the energy industry in Iran.15 Therefore, the Caspian countries preferred to conclude swap agreements with Iran as such deals are not considered as an investment.

After the completion of the BTC pipeline, the U.S. engagement in the Caspian region had been less active. Arguing that “West’s work is done in Central Asia,” Denison16 pointed out that in the medium-term, the external actors will focus on ensuring contract stability rather than engaging in geopolitical struggle. Particularly in Kazakhstan, the U.S. companies secured the dominant position (about 75% in major projects) in energy sector during the 1990s and since then, their primary effort was focused not on expanding their participation but on maintaining the acquired energy assets.

**Russian influence in the Caspian region**

In the meantime, Russia sought the increasing domination of the U.S. multinationals as a threat to its strategic position in the region. During the first few years after the Soviet disintegration, Russia has not been an active player in the region because Moscow was largely preoccupied with domestic...

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14 Mehdi Parvizi Amineh, Towards the Control of Oil Resources in the Caspian Region (New York: St. Martins Press, 1999), 186.
conflicts and economic problems. Eager to strengthen their independence, the NIC countries sought to construct new pipeline routes bypassing Russian territory.

By the end of 1990s, witnessing increasing participation of American companies in the region, Russia responded with counteractive actions by demanding stakes in some energy projects in the NIC countries. Russian Fuel and Energy Minister Shafranik argued that the NIC states owe Russia a debt for investments made during the USSR period. With Putin coming to power in 2000, Moscow’s strategy in the Caspian region became more consolidated. The new government sought to maintain Russia’s role as the major transhipment corridor in the region. Shortly after being elected to the presidency, Putin appointed his Special Representative in the Caspian Region, which mirrored the U.S. Special Advisor for Caspian Basin Energy Diplomacy.

It should be noted that the relations between the U.S. and Russia in the region have not always been in the form of competition. Companies from both countries cooperated in a number of projects, including the Caspian Pipeline Consortium (CPC) pipeline construction. Initially, the U.S. was reluctant to build a pipeline, which would be under Russian control and attempted to persuade Kazakhstan to build a connection to the BTC. However, Kazakhstan’s position was to maintain ties with Russia, at the same time, securing the Western investment. Russia itself started using the “Western” pipeline when Lukoil started shipments of crude from offshore Yuri Korchagin deposit through the BTC pipeline in 2014.

Russia has been active in maintaining its monopoly in supplying the European markets with natural gas. Moscow purchased large bulks of Turkmen gas, diminishing Turkmenistan’s need to look for alternative routes. However, the two countries had some unresolved disputes, which exacerbated after 2009, and the exports of Turkmen gas in the Northern direction dramatically dropped. Effectively blocking the construction of the Trans-Caspian pipeline, Russia in its turn constructed the Blue Stream pipeline to export gas to Turkey.

The South Stream was designed to deliver Russian gas towards Central Europe, but the project was cancelled in the aftermath of the 2014 Crimea crisis and due to unresolved controversies between Russia and the EU. In December 2014, during the visit of President Putin to Turkey, the two countries agreed to replace the South Stream with the Turkish Stream gas pipeline, which will stretch across the Black Sea. The initial planned capacity of the pipeline was 63 bcm of gas, which was later reduced to 32 bcm. It was estimated that around half of the gas would be consumed in Turkey and another half would be transported further to Europe. However, in the light of worsening bilateral relations between Russia and Turkey, Gazprom suspended the construction of the Turkish Stream pipeline in November 2015.

The crisis in Russian-Turkish relations escalated when Turkey actively opposed Russian military actions in Syria. In November 2015, Turkey shut Russian military plane, which allegedly crossed the Turkish territory on a way to bombing Syria. In response, Moscow closed its trade with Turkey and announced the suspension of the Turkish Stream pipeline construction. Shortly after the Russian-Turkish dispute, Azerbaijan and Turkey announced the acceleration of works in the construction of the Trans-Anatolian gas pipeline (TANAP), which is projected to be completed in 2018. Russia and Turkey restored diplomatic relations in August 2016, and two months later, President Putin and President Erdogan signed a new energy deal agreeing to continue the construction of the Turkish Stream pipeline.

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The recent developments may lead to a revival of the discussions regarding the East-West Energy Corridor, which will enable exports of Kazakh and Turkmen gas to Europe through Turkey. The EU’s reliance on Russian gas is considerable, as the latter supplies about 30% of EU gas, which is about 150 bcm per year. Instability in Russia’s relations with transit countries such as Ukraine and Turkey also threatens the security of gas supplies to Europe. Therefore, the EU countries are increasingly keen to end their dependence on Russian natural gas supplies.

In 2003, Brussels endorsed the Nabucco gas pipeline project, which is projected to supply the EU with natural gas from Azerbaijan, the Middle East and Central Asia. The pipeline challenges Russian dominance, and it is competing with Moscow-supported South Stream and Turkish stream projects. Although the Nabucco project was frozen in 2013, the EU initiated the Southern Gas Corridor project, which will connect the NIC countries with Europe. As part of this project, in March 2015, Turkey launched the construction of the Trans-Anatolian pipeline (TANAP). The missing link is the Trans-Caspian pipeline connection between Azerbaijan and the two eastern Caspian states Kazakhstan and Turkmenistan.

In the end, Moscow was not able to sustain the full control over all energy export routes from the Caspian. Azerbaijan secured its export volumes through the BTC pipeline, whereas Kazakhstan and Turkmenistan managed to diversify routes by building energy transportation links to China. The only route that Russia and Iran collectively blocked was the Trans-Caspian pipeline, where they appealed to environmental concerns to prevent the construction.

China’s influence in the Caspian region

As a result of an active involvement since 1998, China achieved significant participation in Caspian region’s energy sector. Although building pipelines from the region required substantial investment, this has not deterred Beijing. At the moment of completion, the Sino-Kazakh pipeline was the longest existing oil pipeline, whereas the CAC (Central Asia-China) is the longest existing gas pipeline in the world. Over the second decade of independence, Kazakhstan turned into China’s primary oil supplier in Central Asia, whereas Turkmenistan is now China’s major gas supplier.

China’s main motivation in involvement in the Caspian region has been its increasing domestic energy demand. Having a very limited access to the Persian Gulf oil market, Beijing hastened to ensure the security of energy supplies from the Caspian basin. Most of the Chinese hydrocarbon imports from the Middle East and Africa pass through the Strait of Malacca, which is under the U.S. control. Therefore, in diversifying energy supply sources, Central Asia is China’s natural choice as no shipment is required.

The Central Asia-China gas pipeline, which connected China to main production fields in Kazakhstan, Turkmenistan and Uzbekistan, was inaugurated in December 2009. This 1,800 km long pipeline is projected to carry 40 billion cubic meters of natural gas annually. The launch of the pipeline was named a turning point in the development of Central Asian resources. This pipeline met Central Asian states’ expectations to diversify their export routes in order to weaken dependence from Russia.

Moscow’s position about this development was neutral because the pipeline directs Central Asian gas exports away from the European market, which is the main destination for Russian gas. It should be noted that the pipeline passes Xinjiang district in China, where separatist movements were active among the ethnic Uighur population. China’s concern was that Central Asian states...
would support the rebellion Uighur population in Xinjiang, which are ethnically close to Central Asian nations. From this perspective, it is important for China to maintain positive bilateral relations with Central Asian states.

Some analysts argued that China is playing increasingly important role in the region and some went as far as to state that China has come to “displace both the United States and Russia” in the region. Others argued that Chinese investment is largely predetermined by energy security concerns, and it does not seem to be challenging the geopolitical domination of the U.S. and Russia. The announcement of China’s “One Belt One Road” ambitious initiative in 2013 started a new phase in China’s cooperation with the states in the region.

Summary

As it was evidenced from the previous sections, the strategic competition among the regional and external powers greatly influenced the trajectory of the new pipeline routes in the Caspian region. The implementation of the East-West Energy Corridor initiative, which bypasses Russia and Iran, cannot be explained by economic logic but can be justified by strategic motivations. The BTC construction would never take place if not the political and financial support from the U.S. government. Moscow in its turn convinced Kazakhstan to build the CPC pipeline, which runs through the Russian territory. In the second decade after the collapse of the Soviet Union, China achieved significant success in tapping into Caspian energy resources through constructing oil and gas pipelines in Central Asia. Other regional players such as Turkey and Georgia also benefited from having the BTC pipeline on their land, whereas Armenia’s isolation worsened.

A great deal of political risk contained in that the pipeline routes from the Caspian basin crossed the unstable conflict zones in Abkhazia, Chechnya and Nagorno-Karabakh. The upsurge of social and political conflicts in the Caspian and Caucasus regions in the 1990s hampered the smooth development of pipeline transportation infrastructure. Another factor that had an impact on new pipeline construction was the unsettled status of the Caspian Sea. The lack of the demarcation agreement prevented Azerbaijan, Turkmenistan and Iran from collaborating in joint pipeline projects in the Caspian Sea. In addition, the absence of an agreement on the status of the sea also restrained Kazakhstan and Turkmenistan from building a Trans-Caspian pipeline.

As it is often the case in oil and gas industry, when the political interests involved, the economic rationale often steps off to the secondary stage. For all three NIC states, the most attractive and efficient route to take oil and gas to markets would be the pipeline through Iran to the Persian Gulf. However, the U.S. opposition deterred the plans to construct such a pipeline as it openly limited Iranian participation in energy projects in the region and expanded its own presence in region’s largest oil projects. Moreover, Washington succeeded in persuading Azerbaijan to construct the BTC pipeline, which bypasses Russia and Iran.

The outcome is that Iran had become an isolated regional player in the Caspian region. Although Iran’s territory is relatively stable compared to rebellious areas in the South Caucasus, the country’s intransigent position on the legal status of the Caspian Sea was an obstacle for its fruitful cooperation with the NIC countries. Nevertheless, Iran signed short-term swap agreements with the NIC countries to provide energy supplies to its intensely populated northern regions. In the light of recent events with relieving sanctions on Iran, there are several pipeline projects that will possibly move forward. Keen to end its dependence on Russian gas, the EU might use this opportunity to tap into Central Asian gas reserves by constructing the pipeline through Iranian territory. Similarly, oil from Kazakhstan’s Kashagan field can be delivered to the Persian Gulf.

To highlight constraints faced by the NIC states in constructing new energy export routes, the next section will provide case studies unfolding main factors that influenced pipeline trajectories in each of the NIC states.

Azerbaijan’s pipeline dilemma

In the immediate years after independence, it was evident for Azerbaijan that the lack of export routes is one of the biggest challenges for the development of the country’s energy sector. In 1994, the Azerbaijan International Operating company (AIOC) was established to develop the country’s largest Azeri-Chirag-Guneshli oil deposits. The parties to the contract agreed to cooperate on the issue of the new pipeline construction. This responsibility of the AIOC members was important for the government because several oil multinationals were among the participants, including Russian Lukoil, European companies and oil firms from Japan and the U.S. From the beginning of its operations, the AIOC announced that the consortium is considering routes proposed by Georgia, Russia and Turkey.

In the meantime, Azerbaijan decided to send its “early oil” exports in two directions: through Baku-Grozny-Novorossiysk and Baku-Supsa routes.

“Early oil” pipeline routes

The Baku-Grozny-Novorossiysk line partially existed in Soviet times, and it only needed an upgrade and extension. The AIOC planned to pump 120,000 b/d of crude annually through the renewed pipeline. However, the safety of this route was undermined as the two Russian-Chechen wars cut Russia off Azerbaijan, while more than 10% of 1,411 km of this pipeline was in the Chechen territory. During the 1996 war in Chechnya, the pipeline was damaged severely, and this interrupted oil exports. Following the cease-fire agreement between Russia and Chechnya in August 1996, Azerbaijan was intending to resume oil transportation to Novorossiysk but Transneft denied Azeri oil access to the line because it was not possible to ensure safe transportation. Oil exports resumed only in the second half of 1998 after the reconstruction works commenced, and safety was guaranteed in the Chechen section of the route.

Shortly after the pipeline was revived, Russia again had to close the Baku-Novorossiysk line in 1999 because the Second Chechen War took the pipeline out of control. Although the pipeline bypassing Chechnya and going through Dagestan was completed in 2000, Azerbaijan and the AIOC remained cautious about sending oil through this route. In the end, Azerbaijan indicated that Novorossiysk line could not serve as the main export route as it could carry only 105,000 b/d, which was only a small fraction of what the country wanted to send.

Another export route for early oil from Azerbaijan was Baku-Supsa pipeline project. The pipeline existed since the Soviet times though the AIOC had to spend $600 million to renovate the line. This pipeline runs from Sangachal terminal near Baku towards Georgia’s port of Supsa in the Black Sea. The agreement on the construction of the new pipeline between Azerbaijan and Georgia was concluded in March 1996, and the connection was completed by 1998. In the following year, the

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pipeline delivered its first oil to the Black Sea. The Baku-Supsa line’s initial capacity was 150,000 b/d, which was later upgraded to 250,000 b/d.\textsuperscript{32}

It was evident that the capacity of the “early oil” routes is not sufficient to carry the major bulk of oil when the production was projected to peak in Azerbaijan. Both Russia and Georgia proposed an upgrade of the existing routes, but Azerbaijan refused for several reasons. First, exports to Novorossiysk and Supsa had been a challenge for the AIOC during the period of early oil. The Russian route was a difficult one as the pipeline crosses the region, where the conflict lasted for many years. Similarly, the Baku-Supsa route would pass near politically unstable regions such as Nagorno-Karabakh, South Ossetia, Abkhazia and Ajaria. Second, Turkey opposed the plans for enlargement of the Baku-Supsa and the Baku-Novorossiysk routes on environmental concerns.

In 1994, Azerbaijan reached an agreement with Iran on oil transportation towards Turkey through the Iranian territory. Further to this, Azerbaijan and Iran concluded an oil swap deal in 1995, with the future intention to build a pipeline from Azerbaijan to the Persian Gulf.\textsuperscript{33} In the light of growing cooperation and to further strengthen bilateral ties, Azerbaijan offered Iran 5% share in the AIOC consortium. However, due to the pressure from the U.S., Azerbaijan unilaterally annulled the deal, which led to the deterioration of diplomatic relations between Baku and Tehran. After this incident, Iran’s stance over the disputed areas in the Caspian Sea became more assertive and the tension even led to the use of military gunships in 2001.

The Baku-Tbilisi-Ceyhan route

Turkey’s initial proposal to build a pipeline from Baku towards the Turkish city of Ceyhan in Mediterranean was made in 1992.\textsuperscript{34} Since that time, several governments changed in Turkey, Azerbaijan and Georgia, but the project was not abandoned. By the end of the 1990s, with low oil prices and the financial crisis in most of the Post-Soviet states, the pipeline project was seen unrealistic. The complexity of the issue is illustrated by the fact that it took more than a decade to get the BTC pipeline to deliver its first oil.

Azerbaijan sympathised this route because it would provide direct access to world markets from Ceyhan port on the Mediterranean coast. Turkey’s proposal contained two possible deviations of the pipeline routes: one through Georgia and another through the Armenian territory. Although the second route was shorter, it was rejected outright by Azerbaijan in the light of the Azeri-Armenian conflict around Nagorno-Karabakh issue.\textsuperscript{35} The unresolved territorial conflict has kept the two countries hostile to each other since the end of the 1980s.

Turkey assured that the BTC pipeline would be the “safest and most economical” route to deliver oil from Caspian region towards Mediterranean. However, the two problems with the BTC pipeline concerned exactly the economic feasibility and safety of the project. First, the pipeline is 1,768 km long, which is twice longer than the Baku-Supsa route (833 km). Therefore, the concerns regarding the economic rationale for building such a costly project appeared often. Although the initial cost of the pipeline was estimated at around $2.5 billion, the final cost of the construction was $3.9 billion.\textsuperscript{36} Second, although Turkey guaranteed the safety of oil transportation, the route


passed the areas, where Kurdish separatist movements were active. Nevertheless, the AIOC never expressed concerns regarding this issue but seemed to be more concerned with financing such a grandiose project.

The dynamics changed by the early 2000s when the recovery of the oil prices revitalised the debates around the BTC construction. Although the U.S. had been expressing support for the BTC project, oil multinationals, including the U.S.-based ExxonMobil, Pennzoil and Russian Lukoil, were less enthusiastic about investing in the pipeline and refused to provide financing. Later in 2002, Lukoil sold its stake in the AIOC project. Countering the resistance of some AIOC members against the pipeline, the U.S. government decided to contribute $827 million towards the construction of the pipeline. The transaction was made through American financial agencies such as the Export-Import Bank, Overseas Private Investment Corporation and Trade and Development Agency.

International Financial Organisations (IFOs) also provided the financial support for the BTC pipeline construction. It has been suggested that the U.S. government pressured the World Bank to finance the BTC pipeline and to reject applications for financial support for other pipelines. The U.S. justified the construction of the pipeline with the plans to export oil from Kazakhstan via the BTC. As the Senior Advisor to President Bush on Caspian Energy issues commented: “[w]e want the Kazakh oil to be fed into Baku-Ceyhan... [that] means the World Bank won’t pay for any Iranian pipeline.” Eventually, the World Bank agreed to provide $300 million loan for the project.

Finally, the BTC construction commenced in 2002 and the first oil reached Ceyhan only by mid-2006. However, even after the completion of the pipeline, sceptics expressed concerns regarding the feasibility of the project. Failure to find further commercial discoveries in the Azerbaijani sector of the Caspian Sea made it difficult to utilise the pipeline for its full capacity (one million barrels per day). Considering that three of the Kashagan shareholders, namely, Eni, TotalFinaElf and Itochu jointly hold 13.4% of the BTC, it is possible that the pipeline will become one of the primary export routes for Kazakhstan (Table 1).

The military conflict between Russia and Georgia in August 2008 caused disruptions in the functioning of the BTC. The bombing not only damaged some parts of the pipeline but also questioned the safety of the BTC and South Caucasus pipelines. During the temporary shutdown of the BTC in 2008, Azerbaijan exported its oil through the Baku-Novorossiysk line. The companies resumed their exports via the BTC pipeline shortly after the Russian-Georgian conflict was resolved.

It had been pointed out that given the availability of cheaper routes, the construction of the BTC pipeline made no economic sense. The final cost of the BTC, which was referred to as the longest and the most expensive route to transport Azeri oil to world markets, amounted $3.9 billion. To compare, the projected cost of Baku-Novorossiysk line reconstruction was $2.5 billion, while the route through Iran would be the shortest and the most economical with the projected cost of only $1 billion. With the BTC project, not only the investing companies undertook enormous financial burden but also Azerbaijan received fewer rents from the AIOC until its members recouped their investments. Therefore, the pipeline projects such as the BTC, South Caucasus pipeline and the projected Trans-Caspian pipeline were primarily driven by political considerations.

42 Rasizade, “The mythology of munificent Caspian bonanza and its concomitant pipeline geopolitics.”
Table 1. The Baku-Tbilisi-Ceyhan pipeline shareholders.

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Country</th>
<th>Share (%)</th>
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<tbody>
<tr>
<td>BP (operator)</td>
<td>UK</td>
<td>30.1</td>
</tr>
<tr>
<td>AzBTC</td>
<td>Azerbaijan</td>
<td>25</td>
</tr>
<tr>
<td>Chevron</td>
<td>U.S.</td>
<td>8.90</td>
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<td>Statoil</td>
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<tr>
<td>Eni</td>
<td>Italy</td>
<td>5</td>
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<tr>
<td>Total</td>
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</tr>
<tr>
<td>ONGC Videsh</td>
<td>India</td>
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Azerbaijan’s natural gas transportation

The problem of natural gas exports was not acute in Azerbaijan until the discovery of gas deposits in 1999. Until that time, the country relied on Russian gas supplies. With the start of gas production at Shah Deniz field in late 2006, Azerbaijan became a gas exporter on its own. To deliver its gas to markets, Azerbaijan collaborated with Turkey to construct 692 km long gas pipeline known as the Baku-Tbilisi-Erzurum (BTE) or the South Caucasus pipeline. The pipeline’s trajectory is similar to the BTC: it runs from Baku through Tbilisi and then further to the port of Erzurum in Turkey. The first stage of the Shah Deniz project secured gas supplies to Georgia and Turkey, whereas the next stage of the project will deliver Azeri gas to Europe via Trans-Anatolian (TANAP) and Trans-Adriatic (TAP) gas pipelines.

The construction of the TANAP pipeline started in March 2015 and is projected to be completed by 2018. The tension between Russia and Turkey, which started in 2015, is likely to have consequences on gas trade in the region. With the completion of the TANAP, Azerbaijan will have an opportunity to become Turkey’s main supplier of natural gas. The TANAP and the TAP connections threaten to undermine Russian monopoly over gas exports to European markets. Interestingly, disputes between Azerbaijan and Russia around gas supplies in 2006 have not deterred Lukoil from becoming one of the shareholders in the Shah Deniz project (10%) and in the South Caucasus pipeline (Table 2). As part of the 2007 Azeri-Iranian agreement, Azerbaijan exported small amounts of gas to Iran, whereas the latter supplies Azerbaijan’s Nakhichevan exclave with natural gas.

Summary

Azerbaijan sought to break its ties with Russia in the beginning of the 1990s and allied closely with the U.S. and Turkey. The country distanced itself from Moscow because the latter supported
Armenia in the conflict over Nagorno-Karabakh. Moreover, Baku perceived with caution Russian attempts to restore its domination in the Caspian region. At the same time, Azerbaijan welcomed oil majors because Western oil companies had the technology and capital to invest in offshore fields. In doing so, Azerbaijan aimed to secure Western support in its continuous confrontation with Armenia.43 However, eventually, Azerbaijan has not found support from the West in the resolution of its conflict with Armenia, which prompted Baku to gradually restore trade relations with Russia.

It can be argued that Azerbaijan had a variety of options from which to choose its main oil export routes. Russia, Turkey, Georgia and Iran entered a competition, proposing new pipelines to be constructed through their territories. Even Armenia offered to build the pipeline through its territory, expressing readiness to make concessions in resolving the territorial dispute. Other countries that proposed pipeline routes through their territory include Romania, Bulgaria, Greece and Ukraine. In the end, Baku rejected all these offers, opting instead for the BTC pipeline project.

At the regional level, the competition was about the benefits that the pipeline would bring to a transit country. On the one hand, the new BTC pipeline significantly increased the geopolitical significance of Georgia and Turkey, also bringing the two countries economic benefits in the form of transit fees. For example, Georgia will receive an average of $62.5 million per year in transit fees during the operation of the BTC.44 On the other hand, the project worsened the economic isolation of Armenia, which allied with Russia seeking for support in the unresolved conflict with Azerbaijan.

The BTC case illustrates that the construction of the pipeline is a political choice rather than commercial as economic interests had to give way to political considerations. It is for this reason that the BTC pipeline was named a “political pipeline.”45 Concerns over the commercial feasibility of the project have not played a decisive role. Nevertheless, Azerbaijan opted for the BTC pipeline, even though it was significantly costlier than the Southern route. Even though the companies in

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Table 2. The South Caucasus pipeline (BTE) shareholders.

<table>
<thead>
<tr>
<th>Shareholder</th>
<th>Country</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>BP (operator)</td>
<td>UK</td>
<td>28.8</td>
</tr>
<tr>
<td>TPAO</td>
<td>Turkey</td>
<td>19</td>
</tr>
<tr>
<td>AzSCP</td>
<td>Azerbaijan</td>
<td>10</td>
</tr>
<tr>
<td>Petronas</td>
<td>Malaysia</td>
<td>15.5</td>
</tr>
<tr>
<td>Lukoil</td>
<td>Russia</td>
<td>10</td>
</tr>
<tr>
<td>Naftiran Intertrade</td>
<td>Iran</td>
<td>10</td>
</tr>
<tr>
<td>SGC Midstream</td>
<td>Azerbaijan</td>
<td>6.7</td>
</tr>
</tbody>
</table>


the AIOC expressed concerns about the commercial feasibility of the project, this has not deterred Azerbaijan from building the pipeline.

Kazakhstan’s pipe dreams

Kazakhstan’s “early oil” export routes

Like Azerbaijan, Kazakhstan faced similar problems with exporting its crude to global markets. Having the biggest oil reserves among the NIC states, the country attracted big-name foreign investors during the 1990s to sign multi-billion dollar investment contracts. Developing hydrocarbon deposits was beyond the capabilities of domestic companies. On the day of obtaining independence in December 1991 and up until 1998, Kazakhstan was in the possession of only one major export connection — the Atyrau-Samara pipeline. This pipeline pumped oil from the Kazakh coast of the Caspian Sea to the terminals in the Russian city of Samara and then further to world markets through the Druzhba pipeline system. Kazakhstan’s internal pipeline network was also largely underdeveloped. As the output from the Caspian basin was projected to expand, the construction of the main export routes became an urgent matter.

Kazakhstan’s biggest (at the time) oilfield Tengiz was discovered during the Soviet era in 1979 and shortly after that Chevron entered negotiations with Gorbachev’s governments to obtain the licence to develop the field. The contract was finalised in 1993 between independent Kazakhstan and Chevron forming the Tengizchevroil (TCO) joint venture. Almost at the same period, Kazakhstan and Chevron began to seek investment for constructing an export line. In March 1993, Kazakhstan and Russia agreed to utilise the Atyrau-Samara pipeline for oil exports from Tengiz. However, this was only a temporary solution as the pipeline’s export capacity limited. By 1998, the export capacity of TCO consortium increased to 90,000 b/d, but the pipeline could carry only 65,000 b/d, and even this was often interrupted. Moreover, Kazakhstan planned to expand the oil output further with new discoveries being made in the Kazakh sector of the Caspian Sea.

Despite the existence of the Kazakh-Russian bilateral agreement on oil transportation, Russia limited oil exports through the Atyrau-Samara pipeline. Russian pipeline monopoly Transneft imposed quotas on the exports from Kazakhstan and disrupted transits from Kazakhstan, complaining about high sulphur concentration in the oil. To address the problem, Chevron had to invest about $100 million in equipment to remove sulphur compounds. However, the permit by Russia to transport the oil has not been consistent even within the agreed quota. Following this, in 1998, Chevron temporary froze its investments for Tengiz. This hampered the development of the project and undermined Kazakhstan’s grand ambitions to become one of the major oil producers.

In the absence of any other connections to the rest of the world, Kazakhstan had to export oil via alternative routes: via rail to Russia and China, by oil tankers across the Caspian to Baku. Kazakhstan also delivered its oil to Russia by shipment of Tengiz oil on tankers to the Black Sea through the Volga-Don canal system. In addition, Kazakhstan and Azerbaijan agreed to send Kazakh oil by tankers across the Caspian Sea to Baku. Due to disagreements about the transit fees, in February 1999, TCO suspended tanker shipments to Baku in February 1999. Shipments to Baku resumed with the completion of the BTC pipeline in 2002. By 2001, Kazakhstan was exporting around 350,000 b/d of its oil by rail and tankers.

In 1996, Kazakhstan and Iran concluded the first swap deal. Under this deal, Kazakhstan would ship its oil to the Iranian port of Neka in the Caspian Sea, whereas Iran would deliver an equivalent
amount of its own oil to the Persian Gulf for Kazakhstan. As Western multinationals could not work with Iran, Kazakhstan’s Mangistaumunaigas oil company conducted the swap operations. However, international sanctions against Iran made the swap operations problematic and deliveries interrupted several times. In 2005, the countries resumed the swap operations but only for the period until 2010. In October 2015, with sanctions lifted from Iran, Kazakhstan initiated resuming of crude swaps with Iran.49

Construction of the Caspian Pipeline Consortium

Although the construction of the new pipeline was an urgent need for both Kazakh government and TCO investors, the CPC pipeline was launched only in November 2001. The CPC is 1,510 km long pipeline, construction costs of which amounted $2.67 billion. The project’s original transportation capacity is 450,000 b/d,50 which can be delivered from Tengiz to the Russian Novorossiysk port in the Black Sea. Although the decision on the pipeline construction was made in 1993, it took long to find investors for the project and then for investors to agree on sharing the costs and responsibilities.

Initial members in the CPC project included only three countries, namely, Kazakhstan, Russia and Oman. It has been pointed out that Russia demanded a stake in the Tengiz project, in exchange for accepting the terms for the CPC pipeline.51 After Russia’s acquisition of an interest in the TCO was announced in 1995, the CPC implementation moved forward. However, the main issue with the financing of the pipeline was not resolved. The CPC shareholders approached the World Bank seeking for support with financing.52 The World Bank’s refusal to provide the loan had complicated the situation. In 1995, Kazakhstan approached the EBRD with the same request but again received a rejection.

As financing had become the bottleneck for the development of the project, Kazakhstan and Russia had no other choice than to invite Chevron, ExxonMobil and several other MNEs to become shareholders. Chevron agreed to finance half of the project costs in return for 25% of profits. Disagreeing with Chevron’s requirements, Omani investors demanded that the company should contribute more and pay the transit fees.53 In 1996, the dispute between the investors was finally resolved, and the restructuring of the CPC took place, which resulted in a decrease of Omani shares and entering of eight new private investors.

The U.S. company Mobil agreed to invest about $1 billion in exchange for 25% equity share in the TCO project and further 7.5% in the CPC consortium. Mobil and other private investors demanded that the pipeline should be in shared ownership. Although Russia was reluctant in letting other companies become shareholders of an oil pipeline crossing its territory, it had to make concessions as Kazakhstan could opt for an alternative route. Kazakhstan’s President Nazarbayev pointed out:

Our policy towards it is a multi-vector one. The Russian routes are important to us today and if the Russians give more opportunities, we will take them. If not, we will go via the Caspian Sea to the Caucasus to supply our crude to international markets.54

Therefore, the CPC became the first pipeline in Russia, which is not under the exclusive control of Transneft transportation company. Oman eventually left the project in 2008 selling its 7% interest

50 Chow and Hendrix, “Central Asia’s Pipelines.”
51 Alexandrov, Uneasy Alliance.
54 Joint Press Conference by Kazakhstan’s President Nursultan Nazarbayev and the President of the EBRD Jean Lemierre, 18th Plenary Session of the Foreign Investors Council, 7 December 2007.
in the project to Russia.\textsuperscript{55} In the end, Russia became the largest shareholder in the CPC with 44% of combined shares, whereas Kazakhstan holds 19%, and the remaining shares distributed among the investor companies (Table 3).

While bargaining with Russia about the Northern pipeline route, Kazakhstan was considering the option to build another export route through Iran. Although TCO member companies had an interest in constructing an export pipeline through Iran, the U.S. government strongly discouraged its businesses and even pressured Astana not to engage with Iran.\textsuperscript{56} Instead, the U.S. proposed the construction of the Trans-Caspian pipeline from Aktau to Baku through the seabed of the Caspian. This route would take the Kazakh crude straight to the Mediterranean through the connection to the BTC.

The Kazakh government initially appeared enthusiastic about the Trans-Caspian line and even signed a memorandum of understanding with Turkey. However, Russia and Iran opposed this project stating that the pipeline would potentially cause an environmental disaster in the Caspian Sea. With the inauguration of the CPC pipeline, Kazakhstan dropped its interest in the project.

Kazakhstan-China pipeline

Kazakhstan’s need to diversify its oil export directions matched with China’s goals to ensure the security of its energy supplies. Central Asia is China’s nearest neighbour, from where China could build direct pipeline links without paying transit fees to third countries. In 1997, the governments of China and Kazakhstan reached an agreement on building a pipeline between the two countries.

\textsuperscript{55} Rossiya mozhet prodat ‘chast’ doli Omana v KTK Kazakhstanu, Vedomosti, (Russian weekly newspaper), 11 November 2008.

\textsuperscript{56} DeLay, “The Caspian oil pipeline tangle,” 63.

\begin{table}[h]
\centering
\begin{tabular}{|l|l|l|}
\hline
Shareholder & Country & \% \\
\hline
Transneft & Russia & 24 \\
KazMunaiGaz & Kazakhstan & 19 \\
Chevron & U.S. & 15 \\
LUKARCO B.V. & Russia & 12.5 \\
Mobil & U.S. & 7.5 \\
Rosneft-Shell Caspian Ventures Limited & Russia-United Kingdom-Netherlands & 7.5 \\
CTC Company & Russia & 7 \\
Eni & Italy & 2 \\
Kazakhstan Pipeline Ventures LLC & Kazakhstan-United Kingdom & 1.75 \\
Oryx Caspian Pipeline LLC & United Kingdom-Netherlands & 1.75 \\
\hline
\end{tabular}
\caption{The Caspian Pipeline Consortium shareholders.}
\end{table}

It has been announced that the countries agreed to invest jointly in the construction of the pipeline; however, the share of each party in financing the pipeline was not revealed.\(^57\)

However, the construction was delayed due to the financial crisis in 1997–1998. In addition, the low oil prices undermined economic feasibility of the project. Kazakhstan was concerned with delays in the construction as President Nazarbayev in 1998 fired Deputy Prime Minister Akhmetzhan Yessimov reportedly for failing to speed-up the start of the pipeline construction. Nazarbayev commented about the project: “I will personally oversee the pipeline construction. The agreement is of utmost importance. All the issues have to be dealt without delay.”\(^58\)

With the difficulties in securing the financing, the project was shelved in 1999. The project participants attempted to seek IFO’s financial support but without success. China expressed suspicion that the U.S. influenced IFO not to support the pipeline project.\(^59\) In the end, following the recovery of the oil prices in the 2000s, the Sino-Kazakh pipeline project became feasible and the construction resumed.

The pipeline became China’s first direct import route, which eased Beijing’s concerns about the dependence on imports from the Middle East through the U.S.-controlled Strait of Malacca. At the time of completion, it was the longest existing pipeline with the length of 2,228 km. To the date, the export volumes of Kazakh oil through this pipeline are not considerable. For example, in 2013, Kazakhstan’s crude exports via Kazakhstan-China pipeline constituted 224 thousand b/d, which is 16% of total exports.\(^60\) Nevertheless, it is planned that oil from newly launched Kashagan project will contribute to increased exports in this direction.

**Summary**

Although it may seem that Kazakhstan had numerous pipeline options to choose from, this was not the case in the early 1990s. The proposed “Western route,” i.e., the Trans-Caspian oil pipeline, was effectively blocked by Russian and Iranian objections. The “Southern Route” was not an option due to the U.S. opposition against building a pipeline traversing Iranian territory. The U.S.-based oil multinationals and IFOs were unable to invest in any pipeline in this direction, and even in case if such pipeline was constructed, the companies in Kazakhstan would not be able to deliver oil in this direction. Therefore, at the beginning of the 1990s, Kazakhstan had only a few options, amongst which the CPC pipeline through Russia was the most prominent.

To date, Kazakhstan still heavily relies on a partnership with Russia on exporting its oil and gas to global markets. Overall, the country sends 85% of its crude exports and 99.5% of its gas exports in the Northern direction. For example, in 2014, the CPC pipeline alone delivered more than half of Kazakhstan’s exports, which is 35.2 million tonnes of total Kazakhstan’s 67 million tonne exports. According to Kazakhstan’s Energy Minister Vladimir Shkolnik, the CPC pipeline will be further expanded to carry up to 67 million tonnes of crude by 2016.\(^61\) This indicates Kazakhstan’s commitment to continue to rely on the CPC in exporting its crude to world markets. Another line to Russia, the Atyrau-Samara delivered 14.6 million tonnes of oil, whereas additional 2.3 million tonnes were sent to Russia via rail transportation.\(^62\)

Nevertheless, the government indicated that Kazakhstan would need more than one main export route in order to diversify risks. When the Chinese energy consumer market opened in the end of


\(^{58}\) “Delovaya Nedelya” Kazakhstan’s weekly business newspaper, 8 May 1998.


\(^{62}\) Ibid.
the 1990s, Kazakhstan was eager to build both oil and gas pipelines to China. As the plans for the construction of the Trans-Caspian pipeline have not realised, Kazakhstan moved to develop transportation of oil across the Sea by tankers. In November 2008, Kazakhstan and Azerbaijan reached an agreement on the development of the Trans-Caspian oil transport system (TCOTS) to connect East Caspian oil fields with the BTC pipeline. The two countries agreed to create a joint venture, which will regulate a transport system in the Sea and a fleet of barges and tankers. It is projected that once in full operation, the TCOTS will carry up to 500,000 barrels of crude daily, with a potential future capacity of 1.2 million b/d.63

In the end, Kazakhstan managed to construct and diversify its oil export routes only in the second decade after obtaining its independence. The country managed to construct two major oil pipelines and two gas exporting pipelines to deliver its hydrocarbons to the world markets. The competition between the U.S., Russia and China had been beneficial for Kazakhstan in this regard, as each of the powers advocated different routes and provided support and financing for construction of new pipelines.

Moreover, Kazakhstan put significant efforts in strengthening the competitiveness of its domestic national oil company Kazmunaigas. With the founding of Kazmunaigas in 2002, one the government’s main priorities in petroleum industry was to increase Kazakhstan’s participation in energy projects. Since then, Kazmunaigas acquired 10% stake in Karachaganak and 16.81% stake in Kashagan projects. The existing legislation vested the NOC with a right to acquire at least 50% stake in any new hydrocarbon development project.64 In conformity with this objective, the state bounded IOCs to enter into the “strategic partnership” with Kazmunaigas. Thus, any foreign investor in Kazakhstan’s oil and gas sector was “forced to work in one way or another”65 with the NOC. Overall, the creation of consolidated national company strengthened the bargaining position of Kazakhstan vis-à-vis foreign investors.

**Turkmenistan’s options**

**The Russian route for Turkmen gas exports**

Before 1991, Turkmenistan was a part of the unified Soviet pipeline system. Like Azerbaijan and Kazakhstan, Turkmenistan had to rely on Russian pipeline system to export its natural gas abroad. The country’s main “window” for gas exports was the Central Asia-Centre (CAC) pipeline, which was constructed during the Soviet times. The pipeline traverses from Turkmenistan through Uzbekistan and Kazakhstan before plugging into the Russian pipeline network. Therefore, the country’s gas exports almost entirely relied on the Gazprom-controlled gas pipeline. However, the problem with the CAC pipeline was that it has outlived its term. The construction of the first section of the pipeline dates as far as to the 1960s. In addition, the pipeline has a limited capacity to export only about 44 bcm of natural gas per year.

In 2007, Turkmenistan, Russia and Kazakhstan agreed to upgrade the CAC, but Moscow and Ashgabat could not achieve a consensus on the route of the pipeline. Turkmenistan insisted that the new line should connect its largest fields with gas terminals in the Caspian Sea so that it could reach international markets. Russia was reluctant and insisted that the pipeline should follow the old route. As parties could not come to an agreement, the CAC renovation project halted. Nevertheless, Turkmenistan had not abandoned its plans to deliver its gas to the Caspian coast, and between 2012 and 2015, it completed the construction of its own domestic East-West pipeline.

63 Guliyev and Akhrarkhodjaeva, “The Trans-Caspian energy route,” 3171.
64 The Law on Subsoil and Subsoil Use in the Republic of Kazakhstan, N291-IV, 24 June 2010.
65 Martha Brill Olcott, *Kazmunaigas: Kazakhstan’s National Oil and Gas Company* (Houston, TX: James Baker III Institute for Public Policy, Rice University, 2007).
During the 1990s, Russia has not proved to be a reliable partner for Turkmenistan as exports through the CAC repeatedly interrupted. Gazprom naturally gave preference to its own gas to supply the European market, and Turkmenistan found itself competing with the former Soviet counterpart. In 1997, Russia discontinued importing Turkmen gas, which seriously affected the economy of the Central Asian state. Also, Turkmenistan was not particularly happy with Russia’s inability to pay with hard cash. Instead, Russia paid by goods according to barter agreements, while Turkmenistan needed to generate foreign currency to rehabilitate its economy. The above-mentioned difficulties pushed Turkmenistan to search for alternative ways to export its natural gas.

The Iranian route for Turkmen gas exports

Turkmenistan’s nearest market is the Persian Gulf, which prompted Ashgabat to build relations with Iran. In 1997, the two countries launched a 200-km gas pipeline, which traverses from Turkmen city of Korpeje to Iranian gas distribution system at Kurtkui. However, the volumes of gas transported through this line remained modest. In addition to this, in late 1990s, Turkmenistan concluded a swap deal with Iran on supplies of 50,000 b/d of oil. In 2010, the Dauletabad-Khangiran gas pipeline was inaugurated, potentially adding another 12 bcm per year to Turkmenistan’s gas exports to Iran.

Despite this cooperation between the two countries, Turkmenistan still does not have direct pipeline outlet to the Persian Gulf. Although this route is the most convenient and economical way to send oil and gas abroad, the U.S. strongly discouraged Ashgabat from dealing with Iran. Turkmenistan could build a pipeline on its own as it was not bound by the foreign investment and no Western company works in the country’s major energy projects. However, the construction of such pipeline requires substantial financing, which Turkmenistan was not able to provide.

Cautious about the possibility of implementation of the “Southern route,” the U.S. expressed readiness to support Ashgabat in building the Trans-Caspian gas (TCGP) pipeline. Turkmenistan’s president explicitly stated in one of his interviews that the U.S. government “stands behind” the TCGP project. The President of the U.S. Export-Import Bank James Harmon visited Turkmenistan in 1998 offering $3 billion for the construction of the pipeline from Turkmenbashi to Baku. In July 1999, the special advisor to the U.S. President for Caspian energy John Wolf visited Turkmenistan and expressed Washington’s support for the TCGP and stated that the pipeline is essential for strengthening the country’s independence. Shortly after this, in November 1999, leaders of Turkmenistan, Azerbaijan, Turkey and Georgia signed a memorandum of understanding on the project construction.

In the end, the TCGP project has not been materialised for a number of reasons. First, Russia and Iran warned Turkmenistan that no state could take a unilateral decision to build a pipeline across the Caspian seabed without the agreement of all five littoral states. In late 1999, Russia agreed to settle major gas disputes with Turkmenistan and offered cash payments for 40% of total Turkmen gas purchases. Overall, Moscow agreed to buy 20 bcm of Turkmen gas annually, which was projected to increase to 50 bcm within five years.

Second, in July 1999, Azerbaijan discovered large deposits of natural gas in Shah Deniz field. Therefore, Azerbaijan preferred to send its own gas to Turkey and Europe, rather than helping

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66 Roberts, “Pipeline politics,” 86.
67 Bahgat, “Pipeline diplomacy,” 325.
69 Davleniye SSHA na Turkmeniyu, Nezavisimaya gazeta (Independent Newspaper), 26 February 2000, Moscow.
Turkmenistan to plug into this market. The unsettled legal status of the Caspian Sea added complexity to the issue, as Turkmenistan and Azerbaijan have areas of overlapping claims in the Sea, for example, Kyapaz/Serdar oil deposit. As no agreement was achieved on the Caspian Sea delimitation, bilateral relations between the two states worsened. In addition, Turkmenistan’s leadership could not reach an understanding with the project developers Shell and PSG companies.

Another gas pipeline project Turkmenistan was considering is the Turkmenistan-Iran-Turkey-Europe gas pipeline, which was also supposed to traverse through Iranian territory. However, international financial organisations and foreign companies refused to provide financing, while Turkmenistan and Iran lacked finances to build on their own. The circumstances changed in the post-2010 period, as the Russian-Ukrainian crisis repeatedly interrupted Russian gas supplies to Europe and the EU expressed renewed interest in importing Turkmen gas.

In the light of recent developments, the EU became more active in lobbying the Trans-Caspian project, which is illustrated by the visit of the Vice President of the European Commission Maros Sefcovic to Turkmenistan in May 2015. Following the negotiations with the Turkmen government, the EU declared that Brussels and Ashgabat have reached “mutual understanding” about the cooperation on the project. It is planned that Turkmenistan will deliver its first gas to Europe by 2019. With the sanctions relieved from Iran in 2015, there is an increased possibility that Turkmenistan-Europe link will traverse through Iranian territory, rather than crossing the Caspian Sea.

Asian routes for Turkmenistan

In April 2006, Turkmenistan and China reached an agreement on the construction of the natural gas pipeline. The pipeline was to become part of the Central Asia-China pipeline, which supplies China with natural gas from Central Asian states. As part of the agreement, Beijing undertook the construction costs, whereas Turkmenistan promised to ensure long-term gas supplies for the pipeline. The new export route was vital for Turkmenistan because it ended Russian monopolistic position as the major buyer of Turkmen gas. Following this, Turkmenistan managed to re-negotiate gas export deals with Moscow as the latter agreed to increase payments for gas from $65 to $100 per thousand cubic metres.

However, shortly after the agreement was signed, the natural gas prices decreased substantially. Russia expressed its unwillingness to pay the price, which was higher than the average price in the European market. In April 2009, the CAC pipeline was damaged by the explosion, which interrupted Turkmen gas supplies in northern direction until January 2010. As the blast happened in the Russian section, Turkmenistan perceived this with suspicion. The gas trade cooperation between Moscow and Ashkhabad has worsened over time, and Turkmenistan’s gas supplies to its northern neighbour plummeted from about 45 bcm in 2008 to just 4 bcm in 2015.

With the deterioration of Turkmenistan’s energy cooperation with Russia, the launch of the Central Asia-China pipeline in 2009 was timely. Since then, Turkmenistan became one of China’s largest gas suppliers. More than half of the Turkmen gas exports were delivered to China by 2012. In his visit to Turkmenistan in September 2013, Chinese President Xi Jinping launched the production at Galkynysh field, which is the second biggest gas find in the world. The development

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of this deposit will enable Turkmenistan to triple its gas exports to China.\textsuperscript{78} The Central Asia-China pipeline could be extended in the future, eventually connecting Japan to the new energy network.

Another gas export route Turkmenistan was considering in the direction to South Asia is named the TAPI pipeline. The pipeline would connect Turkmenistan, Afghanistan, Pakistan and India, giving the project its abbreviation name TAPI. The American company UNOCAL proposed to build the pipeline, while the Asian Development Bank offered the financing. The project received support from the U.S. because it prevents Iran from building the pipeline in this direction.\textsuperscript{79} Hoping that the ruling regime in Afghanistan will help to construct such a pipeline, Washington attempted to negotiate with Taliban.\textsuperscript{80} However, the extremely unstable political situation in Afghanistan made it impossible to move on with the construction and the implementation was frozen although the media reported several attempts by the governments to reanimate the project.

Finally, the TAPI project was revitalised in 2015 and the construction of the pipeline started in Turkmenistan. With the building costs of the pipeline estimated around $10 billion, the parties aim to commission the pipeline by 2018.\textsuperscript{81} Interviewed experts commented\textsuperscript{82} that considering the low energy prices and difficult economic situation in most energy exporting countries, the timely completion of the project is unlikely.

**Summary**

In its foreign policy, Turkmenistan declared its policy of “positive neutrality” or “permanent neutrality” to all other countries, which was recognised by the UN in 1995. Although Turkmenistan became a member of the Commonwealth of Independent States (CIS) and few other organisations in the beginning of 1990s, it consistently avoided joining any major regional economic or security organisations. The country refused to enter regional organisations such as the CIS Collective Security Council or the Shanghai Cooperation Organisation. This, however, does not mean that Turkmenistan completely isolated itself from the world. The country’s foreign policy is primarily focused on maintaining positive bilateral relations with its main trade partners such as Russia, China, Iran and Kazakhstan.

One can argue that Turkmenistan had more choices than Azerbaijan and Kazakhstan in diversifying its export lines. The first option was to upgrade the “Northern” route to Russia although the disagreements with Gazprom remained unresolved. Even though the country is not bound by the Western investment, Turkmenistan has not managed to build a pipeline through Iran to the Persian Gulf. Neither the plans to build a connection to European markets materialised. The South-East direction remained attractive but was constantly delayed due to the instability in neighbouring Afghanistan. Therefore, despite the availability of several options, Ashgabat remained dependent on exports to Russia for almost two decades after independence. Only with the inauguration of the Central Asia-China pipeline in 2009, the country managed to diversify its gas exports.

Turkmenistan’s slow development with the export diversification can be partially explained by the absence of foreign investors in the country. The Turkmen government attempted to attract investment to build pipelines to Europe and East Asia, but international investors and financial organisations refused to provide funding. In contrast, in Azerbaijan and Kazakhstan, foreign multinationals initiated and pushed for the construction of new export routes, influencing the local and home governments to cooperate on the pipeline projects. Oil multinationals in Azerbaijan and Kazakhstan have been able to attract financial support both from their respective governments and from financial institutions such as the World Bank and the IMF.

\textsuperscript{78} “Rising China, Sinking Russia,” The Economist, 14 September 2013.
\textsuperscript{79} At that stage Iran was negotiating an agreement with India on constructing a new gas pipeline.
\textsuperscript{80} Mojtahed-Zadeh, “The Geo-politics of the Caspian region.”
\textsuperscript{82} Author’s interviews with policy makers and experts (EXP3, EXP4) 7–8 August 2015.
It is clear from analysing the media reports that Turkmenistan’s leadership understands the need for multiple natural gas export directions. With the further increase in gas production, the country will attempt to diversify its export routes further. Whether it will be in the Western or Southern directions is not clear. If increasingly active involvement of the EU in negotiating future pipeline projects with Turkmenistan will bring results, Turkmenistan-Europe line could become to be the next connection.

**Competition for energy resources of the Caspian basin: The new “Great Game” or the new “Silk Road”?**

Although one cannot deny the intense rivalry for Caspian energy reserves, the analogy with the “Great Game” is not adequate. There are several crucial differences between the 19th century’s rivalry and modern processes in the region. First, the “old” game was for the possession of the territories in Central Asia, whereas the “new” game involves a struggle for control over the energy resources of the Caspian basin. Moreover, the old Great Game involved two main players, namely, British and Russian empires, whereas the modern competition for Caspian resources involved multiple actors such as the global power (the U.S., Russia and China) and regional players (Iran, Turkey and the Caspian littoral states).

Second, the notion of the Great Game perceived as a zero-sum game cannot be applied to the processes in the Caspian region. In the case of the Caspian energy resources, it has been demonstrated that the energy cooperation was beneficial for both exporters and importers of oil and gas. Moreover, the global powers cooperate with each other in numerous joint ventures such as Kashagan project in Kazakhstan, and the South Caucasus pipeline consortium where, for example, Iranian and Western companies are members. In another set of examples, the U.S. companies collaborated with Russia in order to build the CPC pipeline.

Finally, and most importantly, the Great Game concept presupposes that the territories where the Game is taking place have little or no impact on the outcome. However, same cannot be said about the NIC states, as in many cases, their strategic moves predetermined the dynamics of the processes. The governments in the NIC countries made strategic decisions on whether to rebuild the relationship with Russia or to ally with the West. For example, Azerbaijan chose the partnership with the U.S. and the European Union and approved the BTC, which is part of the U.S.-endorsed Caspian Energy Corridor initiative. In the end, all three NIC states managed to wane Russian pipeline monopoly, which resulted in operation of new pipelines on a competitive basis.

At the same time, Kazakhstan and Turkmenistan remained cautious to cut their ties with Moscow, simultaneously attempting to maintain good relations with other external actors. Seeing the rapid growth of the South-Asian energy-consuming markets, Kazakhstan and Turkmenistan moved to negotiate pipeline connections with China and India. In their foreign policies, Astana and Ashgabat followed similar multi-vector approach though with some differences. Since Turkmenistan does not share a border with Russia and geographically distanced from its former Soviet counterpart, the country experienced a less pressing need to cope with the Moscow’s influence.

Furthermore, Turkmenistan could choose to limit foreign participation in its hydrocarbon sector and maintain state ownership of its main energy projects. In contrast, Kazakhstan conducted a pragmatic foreign policy, attempting not to favour any of the global powers at the expense of other. Kazakhstan’s decision to sell its energy resources to Western and Chinese companies was motivated by the not only economic reasoning to generate revenue but also political motivation to balance the Russian influence. In the 1990s, Kazakhstan actively sought to attract Western foreign investment, whereas in the second decade after independence, the government counterbalanced the oil majors with Chinese oil multinationals.
There is no doubt that the major geopolitical players in the region greatly influenced the trajectories of the new pipeline routes. However, considering the improved influence and independence in the NIC states, the analogy of the “Great game” may not be appropriate to describe the relationship between the Caspian states and global power poles such as the U.S., Russia and China. The NIC countries ceased to be passive players, which can be easily manipulated by external influence though they still had to balance the presence of geopolitical powers. In the end, both Caspian energy producers and energy importers have benefitted from the diversification of pipeline routes in the region. The new pipelines connected the Caspian region with Europe in the West and China in the East.

In terms of theoretical implications of this article’s findings, applying the narrative of the Great Game, which focuses almost exclusively on actors pursuing power does not seem to be appropriate in analysing international relations in the Caspian region. The classical school of political realism to which the Great Game framework largely belongs draws excessive attention on competitive and conflictual features of the interstate relations. As a result, the reliance on realist framework in analysing Central Asian region, and more broadly Post-Soviet countries, has led to an over-emphasis of self-interest and power relations, overlooking mutual benefits and cooperation between the local and external actors.

Although the realist theory provides a useful framework for the analysis of interstate relations in the region, application of the liberalist theory in conjunction with it seems to be more appropriate in this regard. The relevant feature of the liberalist approach is in that it accentuates coexistence, collaboration and mutual benefits of actors. Therefore, the processes in the Caspian and the Central Asian region could be analysed through the framework of the New Silk Road. In this context, competition, trade and cooperation would be considered as the main drivers behind the development of energy projects in the region. The energy trade links that the NIC countries have built during the two decades of independence have paved the way for the formation of the New Silk Road, which stretches from Europe to China and the Caspian region being the indispensable link between the two.

**Conclusion**

While the NIC states aimed to increase their hydrocarbon exports as rapidly as possible, the main obstacle for multiplying the production output was the lack of export routes. The necessity of diversified pipeline routes was predetermined by geography, economics and politics in the Caspian region. Alternative pipelines make the NIC countries less dependent on any transit country or customer, while at the same time ensuring safeguards against political shocks such as change of the regime in a neighbouring country, worsening of bilateral relations or damage of the pipeline route as a consequence of conflict or terrorist attacks.

This article demonstrated that the competition for energy resources and security of supplies from the Caspian region shaped the pipeline trajectories. The new pipelines connected the Caspian region with Europe in the West and with China in the East. Competition, trade and cooperation were the primary drivers behind the development of pipeline projects in the region. Eventually, both Caspian energy producers and energy importers have benefitted from the diversification of pipeline routes in the region.

In the end, none of the pipeline projects proved to be problem free. Although serious confrontation or military action did not take place, there had been an intense rivalry amongst geopolitical powers. The fact that commercial interests came into conflict with strategic interests suggests that pipelines can offer more than just transit fees. Hence, for transit countries, the successful bid for having a new pipeline through their territory meant not only economic but also political rewards. Pipelines symbolise a link, through which countries are not only bounded together and communicate but also influence each other to a certain extent.
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