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**OIL AND POLITICS IN CENTRAL EURASIA:
THE ROLE OF THE ENERGY FACTOR FOR THE GEOPOLITICAL
ORIENTATION OF KAZAKHSTAN AND AZERBAIJAN**

1. Introduction

Azerbaijan and Kazakhstan are of similar economic and geographic profiles - their main incomes come from oil and gas exports, and, besides, their main oil and gas resources are situated in the Caspian Sea littoral and shores. After proclaiming their independence both - Kazakhstan and Azerbaijan had two main objectives: to develop quickly their oil and gas fields and to find routes toward world's markets for their energy supplies.

Azerbaijan's and Kazakhstan's coming on the world oil market is a venture with no precedent since it was a first time the problem of oil export from big land-locked countries-producers became actual. That is why Ricardo Hausmann quite suitably defined the Caspian republics that became independent in 1991 as "prisoners of geography"¹. And to make things even more complicated – in the early 1990-ties there were no big importers of oil among Azerbaijan's and Kazakhstan's neighbors which meant that just building a pipeline would not

¹ Hausmann, Ricardo. Prisoners of Geography. *Foreign Policy* (Jan/Feb. 2001), pp.44–53. http://www.hks.harvard.edu/fs/rhausma/editorial/fp01_prisoners_geog.htm

have been sufficient: the Caspian oil had to reach a port where it could be loaded on tankers, and only afterwards it was to take its way toward its final users. Kazakhstan has a common border with China but both countries are so enormous that the distance between the Kazakhstani oil and natural gas producing areas and the Chinese main energy consumption areas is measured in thousands of kilometers. Besides, till 1997 China itself was not an importer but an exporter of oil.

At the time Azerbaijan and Kazakhstan attained their independence they had at their disposal pipeline infrastructure that was leading to one country only – Russia. At that time the pipelines were not in good repair because during the last years of the Soviet rule period the oil extraction in the Caspian region was reduced.

Both, Azerbaijan and Kazakhstan relied on the energy factor for accelerating their economic development. They no more had the plans of their development transmitted from Moscow which subsequently made possible to expect a speed up in the growth of oil and gas production in the two republics. On its turn that required the construction of new pipelines. Even in the early 1990-ties it was clear that, if Azerbaijan and Kazakhstan wanted to bring their oil to the global world market without the mediation of Russia or Iran, they had to negotiate the building of pipelines going through more than one foreign state. And such pipelines are devices, subject of high level geopolitical, economic and legal complexity.

From theoretical point of view the British researcher Paul Stevens defines three types of pipelines: inner, trans-boundary (between two neighboring states) and transit ones (when the receiver of the raw material is not a neighboring state)². The bigger part of the already built or planned to be built pipelines in the Caspian region is of the third type.

² Stevens, Paul. Oil and Gas Pipelines: Prospects and Problems. In: *Pipeline Politics in Asia: The Intersection of Demand, Energy Markets, and Supply Routes*. NBR Special Report #23, September 2010, pp. 7–16, here p. 9.

The necessity of big, long and expensive geopolitically complex pipelines for the Caspian oil and gas predetermines the requirement that most of these devices are to be built by mixed consortiums consisting of several associates. More often than not these associates also have shares in the development of the oil or gas field meant to feed the respective pipeline. Thus, pairs of projects are formed which, because the same associates participate in them, are connected like Siamese twins. This connection is also related to the fact that in Azerbaijan and Kazakhstan the hydrocarbon extraction is subject of contracts of "production sharing agreements (PSAs)" type, and the owner of the respective quantity of oil and gas has to find the way to transfer it to the world market. The most rational way in such case is to use a pipeline in which the interested company is a shareholder which subsequently would bring about price preferences when using the device. In the Caspian region such projects–Siamese twins are: the oil extraction project of Azeri–Chirag–Guneshli (ACG) and the Baku-Tbilisi-Ceyhan pipeline; the oil extraction project of Tengiz and the Tengiz-Novorossiysk (CPC) pipeline.

The choice of routes for the export pipelines is turning not only into a touchstone for the geopolitical orientation of Azerbaijan and Kazakhstan but also into a strength measuring ground for the major players: the USA, Russia, Turkey and, from the first of 21st century decade on, China and the EU as well.

The purpose of this report is to study the influence of the energy factor on the geopolitical orientation of Azerbaijan and Kazakhstan.

The point is to endeavour to detach the energy factor from the combination of other factors determining the international policy of Kazakhstan and Azerbaijan. It is not an easy task and undertaking it one should avoid as overestimating as well as underestimating the energy factor. There are many publications on the energy geopolitics in Central Eurasia as well as on the foreign policy of the states from this region but very few attempts made for the sake of finding the cross line between these two subjects of research. The principal thesis that I'm

going to verify is that the energy factor plays a very important role for the emancipation of the two republics from Moscow.

2. The Geo-energy Choice of Azerbaijan: how Washington became the new Kremlin

The most important political process evolving in the post-Soviet area of the Central Eurasia from 1991 on is the intensive work for creating new national states. The local elites very soon distanced from the communist ideology and turned toward nationalism. National consolidation is the ground on which the legitimacy of the state leaders of Azerbaijan and Kazakhstan is founded. The last decade of the 20th century was the time of gradual defining of the main geopolitical vectors, establishing the place of these two republics on the world's political stage.

Azerbaijan is situated in the South Caucasus – a troubled region, overflowing with smoldering ethnic conflicts which till the end of the 1980-ies were restrained by the Soviet repressive apparatus. To the North as well as to the South Azerbaijan borders two mighty neighbors – Russia and Iran, while to the West the country borders its main adversary – Armenia. From demographic point of view Azerbaijan is obviously superior to Armenia but as compensation for it the Armenian lobby in Russia, and even more so the one it has in the USA, are much stronger.

In the beginning of the 90's, Azerbaijan endured a period of crisis during which the country suffered defeat in the war for Nagorno-Karabakh against local Armenian separatists that were supported by the Republic of Armenia. Military failures were the main reason for the quick replacement of the first two presidents of independent Azerbaijan. Ayaz Mütallibov who had already been elected during the Soviet period, was tending to maintain close relations with Russia. The geopolitical orientation of the Azerbaijani Popular Front that was led by the second president of the country Elchibey was completely different. On global aspect Elchibey turned to union with the West, in the same time considering Turkey as its main ally in the region. During the Popular Front's

government Azerbaijan refused to become a member of the dominated by Russia Commonwealth of Independent States (CIS). In the middle of 1993 the military coup of Colonel Suret Huseynov made way to authority for Heydar Aliyev, a dominating figure on the political stage of Baku during the last third of the 20th century.

At that time he had already accumulated enormous political and administrative experience. What was more, part of that experience was gained through his career in Moscow. In the 1980-ies Aliyev was a candidate member of the Soviet Politburo and First Deputy Chairman of the Council of Ministers of the USSR.

Though both – Russia and Iran, acclaimed Aliyev's coming to power, his foreign policy could by no means be defined as pro-Russian or pro-Iranian. He was fully aware that the Caspian oil fields could not be developed without the predominant participation of Western technologies and investments. At the same time the interests of Moscow, Teheran and Ankara had to be taken into consideration too.

The Contract of the development of the Azerbaijan's main oil fields complex Azeri-Chirag-Guneshli (the Contract of the Century) was signed on 20th September 1994 in Baku. In the consortium to develop the oil fields complex Russian LUKoil was also included. The Consortium consisted of: SOCAR – 20%; BP - 17,1267%; Amoco - 17,01%; LUKoil -10%; Pennzoil - 9,8175%; Unocal - 9,52%; Statoil - 8,5633%; McDermott - 2,45%; Remco - 2,08%; Turkish Petroleum - 1,75%; Delta-Nimir - 1,68%³.

Through the Contract of the Century of 1994 Azerbaijan was able to achieve balance in the interests of the West, Russia and Turkey. Iran was the only ignored party but the reasons for that were a result of the global geopolitical constellation and beyond Azerbaijan's control.

³ *Коротков, А.* Каспийский регион привлекает инвесторов. Зеркало.az. 10.11.2009; <http://www.zerkalo.az/2009-11-10/economics/4397-socar-bp-asiman-shafag>

After the Contract of the Century had been signed the next most important goal for Azerbaijan was to secure safe and uninterrupted access of its oil to the world market. The point was in which direction the oil of the biggest Azerbaijani oil field should flow – to the north, toward Russia or to the south-west, toward Turkey. The construction of the main export pipeline was preceded by a long geopolitical fight between Russia on one side and Turkey, the USA and Western Europe jointly on the other. But the last word concerning that rivalry was of the private companies extracting oil in Azerbaijan and the President Heydar Aliyev. He realized that transporting the Azerbaijani oil to the nearly land-locked Black Sea was not the best option as the oil-tankers had to pass through the narrow and over-crowded Bosphorus. Besides, the Azerbaijani oil export was not to be dependant on Russia, a major oil exporter itself and therefore - Azerbaijan's competitor. Aliyev was right in his understanding that after the end of the Cold War Russia ceased to be a world super-power and that the influence of the West on the world politics had significantly increased.

In justifying his decision in favor the Mediterranean route, Aliyev (not without some self-irony maybe) remarked to his close foreign policy advisor, Vafa Quluzade: „the Kremlin is now in Washington”⁴. This short phrase expresses the substance of the geopolitical situation in which the choice in favor of the Turkish route for the Azerbaijani oil export was made. Though Aliyev has been a former member of Politburo of the Soviet Communist Party, he decided that the Azerbaijani geopolitical vector had to be redirected from Moscow to Turkey. The matter with the Azerbaijani natural gas export was solved in a similar way. The alternatives again were: to export the gas to the North, to Russia, or to the South-West, to Turkey via Georgia. The major shareholders in the main Azerbaijani gas field works, Shah Deniz, have been Western companies – the British BP and the Norwegian Statoil. Their natural interest was to direct the gas toward the European market, not toward Russia. In the end, in the beginning of the 21st century the South Caucasus Pipeline was built, and the Azerbaijani gas

⁴ Shaffer, Brenda. *Energy Politics* (Philadelphia, 2009), 54.

started flowing toward the Turkish town of Erzurum. In 2009 Azerbaijan concluded a contract for gas export to Russia but the quantities under it were insignificant. In 2013 it was decided that the Shah Deniz-2 gas was to feed the Trans Adriatic pipeline, and thus the European orientation of the Azerbaijani gas export was reconfirmed.

3. Kazakhstani Oil Export in Search of Diversification

With a population of 17 million people and an area of 2,7 million sq km Kazakhstan is the second largest former Soviet republics. The country has enormous natural resources, the biggest of which is oil. Kazakhstan's geopolitical orientation is seriously influenced by its geographical position of a land-locked country and its being a neighbor of two great powers – Russia and China. Another important factor influencing Kazakhstan's foreign policy is the ethnic composition of its population. By the end of the Soviet rule over 40% of Kazakhstan's population were people speaking Slav languages (mainly Russians). Later on their share went significantly down but by 2013 the Russians and Ukrainians were still about a quarter of Kazakhstan's population ⁵. For Kazakhstan and for the other newly formed states in Central Asia the dissolution of the Soviet Union was to a certain extent unexpected. That is why in the first half of the 1990-ties Nursultan Nazarbayev, President of Kazakhstan, believed that the restoration of the confederation with Russia would offer a good opportunity for development of the young Central Asian republics. However, the Kazakhstani state system had gradually strengthened, and accordingly Nazarbayev acquired the self-confidence of an independent player in the field of international politics. Using as argument the geographical position of the country and the ethnic composition of its population, President Nazarbayev launched a new kind of Eurasian doctrine. According to that doctrine Kazakhstan is the center of Eurasia and a link connecting three speedily growing regions – China, Russia and the Muslim world. In the last few years Kazakhstan

⁵ В Казахстане проживает более 11-ти миллионов казахов; <http://www.zakon.kz/4556603-v-kazakhstane-prozhivaet-bolee-11-ti.html>

has already been pretending for the position of a second (after Russia) independent center of influence in the CIS.⁶

Compared to Azerbaijan, Kazakhstan is situated even further inside the Eurasian continent which is a serious obstacle for the Kazakhstani oil export. On the other hand, though, Astana has one more option, and it is the route toward China

The proved oil reserves of Kazakhstan are nearly four times bigger than those of Azerbaijan. At the same time the development of the Kazakhstani oil fields is very difficult from technical point of view because the oil is situated at very big depth under very high pressure and contains a high amount of sulphur. Because of all this as early as the 1990-ties the authorities in Astana had no doubt that big Western companies with good technological experience and serious financial resources had to be enlisted for participation in the extraction of the Kazakhstani oil.

The Kazakhstani oil field Tengiz attracted the attention of the American company Shevron even before the dissolution of the USSR. As early as 1997 Tengiz was given under 40 year concession to a joint-venture company in which Shevron and the Kazakhstani company KazMunayGas were with equal participation. Later on the Russian company LUKoil also joined the concessioners with a share of 5%.

The second biggest oil field in Kazakhstan, Karachaganak is developed by a consortium in which the major shares are held by three Western companies: Britain's British gas, Italia's ENI and Shevron while LUKoil's share is 13.5%.

Kazakhstan sets its best hopes on the development of the enormous offshore oil field Kashagan. The history of this project offers a good illustration of the complicated geopolitical interests accompanying the production of the Kazakhstani oil. In 1997 the development of Kashagan was assigned to a consortium the major shares of which were held by four Western companies: ENI, the American ExxonMobil, the French Total and the British Shell. Later on

⁶ *Калишевский, Михаил.* Казахстан: От «многовекторности» внешней политики к «многополярности» СНГ. Част I и II. Ferghana.ru. 20–21.03.2007; <http://www.ferghana.ru/article.php?id=4991>

Kazakhstani KazMunayGas acquired a share equal to the shares of those four companies, and in 2013 an associate in the consortium became the Chinese National Oil Company (CNOOC). By 2014 the investors has already spent more than \$50 billion but owing to technical problems the oil extraction at Kashagan has not yet started.

In the 1990-ties the contest for the Kazakhstani oil resources inscribed into the more extensive context of the confrontation between the West and Russia. Without fully ignoring Russia, Kazakhstan logically gave preference to the Western investors because they were the only ones with experience, knowledge of technology as well as funds required for a project of such complexity. In the first decade of the 21st century China has gradually entered the Kazakhstani oil sector. By 2013 China's share in the Kazakhstani oil production was nearly equal to that of the American companies involved in it⁷.

Till 1991 the Kazakhstani oil transporting infrastructure made export possible only to Russia. That state of affairs did not favor the large Western companies making investments in the Kazakhstani oil production projects. In their efforts to find new export routes these companies were supported by their governments. That is why when the construction of new pipelines is considered strictly economic motives are intertwined with geopolitical ones⁸.

Since the first years of Kazakhstan's independence the idea of building a pipeline to the Russian port of Novorossiysk had been under serious consideration. In 1992 for this purpose a consortium, including Russia, Kazakhstan and the sultanate of Oman as a possible financial investor, was created, i.e. – the Caspian Pipeline Company (CPC). However, the Western investors, developing Kazakhstani oil fields also requested a share in this consortium. Initially they were refused but the USA government adopted a position which proved decisive. Washington blocked the possibilities for

⁷ Четверть казахской нефти добывает Китай. Rusenergy.com; 08/04/2013.

⁸ *Димитров, П. и А. Оспанова.* Длинный путь от Каспийского моря до мирового рынка: геополитика казахстанской нефти. Вестник Евразийского национального университета им. Гумилева, серия Международные отношения, № 1–2 (9–10), 2013, 5–15.

international financing of the pipeline and finally in 1996 Russia and Kazakhstan were obliged to reconsider the CPC's shareholders structure⁹. Chevron and several other Western companies obtained shares in this pipeline which was set into operation in 2001. So far it is the main export route of the Kazakhstani oil, and by 2015 this pipeline capacity will be doubled.

In 2006 the Atasu-Alashankou oil pipeline was also built; it connects Kazakhstan with China. There are realistic plans to export the Kazakhstani oil to Baku and then further on via the BTC pipeline.

Thus up to now the Kazakhstani oil export has been diversified to a significant extent. Together with the old pipeline connecting Atyrau to the Russian town of Samara, the new pipelines: the one to Novorossiysk at the Black Sea coast and the one to China, are now in operation. Probably the oil export through Baku will soon be resumed.

4. Conclusions

The choice of investors to develop the oil fields and of routes for oil export are among the most important geopolitical decisions which Azerbaijan and Kazakhstan had to take after their becoming independent states.

In Azerbaijan's case the choice was explicitly in favor of Western companies and an export route not passing through Russia. Thus the energy factor alienated Baku from Moscow and helped with the formation of the geopolitical axis Azerbaijan-Georgia-Turkey. This orientation of Azerbaijan was approved and encouraged by the USA and EU. But in this case the effect of the energy factor should not be overestimated. In the course of the last two decades Azerbaijan's main foreign political task has been to regain the control of Karabakh. And since Russia appears as an ally of Armenia and keeper of the status quo established after the Armenian victory over Azerbaijan, it is logical for Baku to look for support in the West. By this reason now the axis Azerbaijan-Georgia-Turkey is not only an energy alliance but also a purely geopolitical instrument for the isolation of Armenia. All considered, the Karabakh conflict was more imperative

⁹ Жильцов, С. С. и И. С. Зонн. Каспийская трубопроводная геополитика. М., Восток – Запад, 2011, с. 66.

for Azerbaijan in its choice of pro-Western orientation than the energy factor. Regardless of its pro-Western orientation, Azerbaijan has always endeavored to maintain good, predominantly business, relations with Russia. Besides the energy based relations with Russia, Baku takes into consideration the existence of a very large Azerbaijani diaspora in Russia. As a matter of fact the richest Azerbaijani businessmen live not in Baku but in Moscow.

Till now Kazakhstan has led a multi-vector foreign policy but Russia still remains this Central Asian republic's closest ally. The strongest proof for it is the fact that both states are members of the Customs Union. Russia is Kazakhstan's main business, political and military partner¹⁰. One of the factors instrumental for the close relations between Astana and Moscow is the energy factor. More than two thirds of the Kazakhstani oil passes through the territory of Russia and simultaneously Kazakhstan's biggest oil refinery in Pavlodar works with Russian oil.

But in this case likewise it cannot be said that the energy development is the only crucial factor in the close alliance between Kazakhstan and Russia. There are many other factors working in favor of the status quo: a long common border, shared history, cultural and language ties. At the end of the Soviet period the Kazakhstani elite was very much russified and because of that Russia is viewed as a natural ally. During the last few years the oil export to China is stimulating closer economic relations between Astana and Beijing.

When trying to find a relation between the energy factor and the foreign policy of Azerbaijan and Kazakhstan, one should take into consideration that this can be a two-way influence. The choice of foreign investors in the oil-gas sector and export routes depends on the general geopolitical environment.

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¹⁰ *Медеебаева. Ж. М. История внешнеполитической доктрины Республики Казахстан (1991–2010). Астана, 2012, 211–213.*

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