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## ENERGY GLOBALIZATION: OIL GEOPOLITICS IN CENTRAL ASIA

### *Big Race for the Caspian Oil*

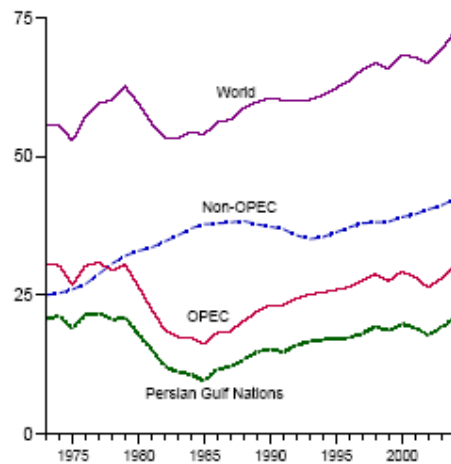


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## Introduction

Urgency of the research theme. The world has entered the XXI century in conditions of unprecedented global transformation and cardinal geopolitical changes. With the collapse of the USSR more than semicentennial balance of powers on globe has come to an end. The only left super power – the United States have got unprecedented levers of power influence on the world, in which the communistic block was no longer resistant. If to look at it from the energy perspective, it is hardly necessary to prove that the modern technocratic civilization is inconceivable without organic carriers of energy. The consumption of oil has gone to its top (see the graph below). The West to a great extent depends on the consumption of raw energy material. Increase in oil prices has become one of the primary reasons for energy crisis for the last decade.



Source<sup>1</sup>

Having huge energy reserves and a solid industrial base, necessary for the development of its energetic infrastructure, Russia is an important energy state and plays a noticeable role in the world energy affairs. It is also important to mention that Russian energy companies formed during market reforms, having spread their economic activities abroad, are to deal with big transnational corporations that have real advantages not only in regards to financial and economic, but technological and managerial levels. Hence, it is crucial to learn processes in the global energy politics in regards to its impact on the Russian energy diplomacy formation. Together with it, the role of legal regulation in the sphere of energy for the new world order formation is also growing. Currently, Russia is at the stage of development of its legal base and mechanisms for external energy policy and diplomacy application. Major document in this area is “Russian Energy Strategy. Main statements”. This document covers main aspects of external

<sup>1</sup> [www.msn.com](http://www.msn.com)

economic cooperation and energy diplomacy, as well as realization of energy policy.

Analyzing mechanisms of realization of energy diplomacy in a multilateral format, it is possible to allocate negotiations within the Conference on Energy Charter, participation in energy groups of Forum LTAS (Legal Technical and Advisory Services Inc.<sup>1</sup>) and other regional organizations. As for the Caspian region Russian diplomacy has not yet succeeded in regulating and establishing regular negotiation process between all Caspian states. The most important task in this direction remains to create an Organization of economic co-operation for pre-Caspian states that would aim to search and develop mutual policy in the field of refinery and transportation for energy carriers.

Out of Russian energy diplomacy mechanisms it is crucial to highlight the dialogue between the states-consumers and states-donor (those who produce energy resources) within annual International Conferences on Energy in cooperation with economically developed states. In order to protect its energy interests Russia intends to use energy factor as a powerful tool to approach various kinds of international political and economic problems.

Globally speaking, current tendencies in energy diplomacy have become less concrete and touch all oil producing states. Increased internationalization and globalization of the world energy, growth of energy interdependency as well as obvious broad international cooperation on energy security lead to further development and enhancement of the world political energy institutions and mechanisms of multilateral energy diplomacy.

While global oil prices fluctuations most leading oil states-exporters (donors) aim to activate international collaboration in order to improve conjuncture and stabilize the oil market. By analyzing measures taken at the end of 90s within OPEC<sup>2</sup>, there comes a conclusion that the role of this organization in the world energy politics is slowly decreasing. However, in case of the further growth in demand for energy resources and the increased share of the “OPEC’s” oil in international trade, there will be an opportunity for OPEC to reinforce its positions. At the same

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<sup>1</sup> The company, founded in Columbia, develops educational programs in the field of business and law upon requests from governmental and other official circles of developing states.

<sup>2</sup> OPEC – The Organization of the Petroleum Exporting Countries – the cartel that have been created by the oil producing states in order to stabilize oil prices in the world. Members of this organization are those states whose economy mainly depends on income from oil exports. The goal of the organization is to control world oil prices.

time, cooperation between OPEK and ILAC<sup>1</sup> and first of all in between the leading oil producers are growing. This cooperation in turn touches the informal formation of an oil exporter alliance (“Oil G 8” or “G 9”) with the part of Saudi Arabia, Iran, Venezuela, Mexico, Russia, Norway and other countries.

Issues of energy globalization will probably be more in details and regularly discussed within “the G8” and other forums, as well as during International Energy Conferences (IECs). Among problems it is necessary to highlight environmental issues, sustainability and predictability of the world energy markets as well as a global dialogue between donor- and consumer-states.

Realization of the Treaty within the Energy Charter<sup>2</sup> may create a legal framework for the cooperation between importer and exporter-states as well as between the transit states in the Eurasian space. It might have a very practical meaning with the Russian participation.

It is crucial for Russia and its political interests to include energy issues into its economic and political relations with the USA and other developed countries. This will definitely attract more foreign direct investments to its market, as well as improve currency flows to the Russian budget. However, Russian long-term energy interests could be better realized through a smart diversification of export markets, where additional oil supplies to the USA would be made without any losses or damages for already stable Russian energy supplies to Europe and the CIS. In order to strengthen its positions on the global energy markets and to position itself not just as a raw-energy material supplier, Russia could be more competitive by selling ready-made high-quality petrol, natural gas and chemical oil products, as well as by selling its oil products through the European retail channels.

The ideal way for the modern global energy market development would be gradual formation of a single economic space with universal game rules for all that would be based on just competition, non-discrimination, mutual interdependence and profitability. In this ideal case, Russian political and economic interests would mostly benefit from the politics of equal separation from both OPEC’s member-states and the developed oil consumer-states. In addition,

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<sup>1</sup> ILAC – the Latin American and Caribbean Initiative for Sustainable Development. The importance of ILAC lies in the relevance of regional goals for the sustainable use and development of biodiversity and the increase in the use of renewable energy sources.

<sup>2</sup> In Russian: Договор к энергетической хартии (ДЭХ)

the most optimal approach would be complete orientation to currently molding relations between Russia and oil exporter-states (donor-states), where radical changes in the global oil politics including changes in production volumes and relations with importers, are based on consensus.

It is possible to assume that already in coming years the global oil market might face noticeable power shifts. History of the world politics testifies the coherent link between politics and energy. The actual task for the political science is to study leading tendencies in Energy, in the fields of oil diplomacy, oil politics, oil infrastructure development and other. This way, Russian foreign politics and diplomacy will obtain various scenarios of global “oil game”, implementation of one of which would strengthen Russia’s positions on the global arena.

The degree of the scientific development of the problem. Problems of international energy politics and diplomacy are implicitly studied in Russia and in Europe. In 70s-80s of the XX century some researches dedicated to the problem of the global energy, international oil politics and MNC-s activities were published. Some of the best works to mention are the following: a collective monograph edited by Primakov and Zhiznin called “Energy Diplomacy. Russia and the world at the border of a new Millennium: balance and conflict of interests”<sup>1</sup>. The condition and development of the global energy, as the authors write, are measured by a number of factors, among which the most crucial are political, macroeconomic and environmental. It means that the regulative role of governments of many countries in the field of Energy is growing, despite an active participation of market elements in it and growing interstate collaboration.

Among publications of the 90-s of the XX century and the beginning of the XXI century it is necessary to mention such collective analytical works as: “Oil and Gas in the Russian Foreign Policy, “New Russian Energy Policy” by Shafranik<sup>2</sup>, as well as books by Mastepanov, “Regional and International Economic Aspects in Russian Energy Policy”<sup>3</sup>, and Vasilenko “Russian oil companies and Politics of Transition”<sup>4</sup>.

A lot of methodological and statistical material was used from the research works published in 90-s by such experts in international energy politics as Ergin, Gustafson, Stanislaw, Mitchell and

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<sup>1</sup> Original in Russian: Жизнин С.З. Энергетическая дипломатия. Россия и страны мира на рубеже XXI века: баланс и конфликт интересов. М.: Дипакадемия МИД РФ, 1999.

<sup>2</sup> Original in Russian: Новая энергетическая политика России/Под ред. Ю.К. Шафраника М., 1997.

<sup>3</sup> Original in Russian: Мастепанов А.М. Региональные и внешнеэкономические аспекты энергетической политики России М, 1997.

<sup>4</sup> Василенко А.Б. Российские нефтяные компании и политика в переходный период. М.: Лессар, 1997.

other.<sup>1</sup> Enormous contribution to the research was made by interesting and informative works on history, geopolitics and globalization by Frank, Kakkönen and Chaturvedi, Waters, Frawley and other.<sup>2</sup>

Analysis of Russian and international research works on energy globalization and currently increasing role of oil factor in international politics, shows constantly growing interest towards the problem. Moreover, some issues as global power shift in transformation of oil geopolitical priorities require some additional and detailed studies.

As a separate group of sources for the research I would like to mention some web resources: [www.ippk.rsu.ru](http://www.ippk.rsu.ru), [www.pinr.com](http://www.pinr.com), [www.ca-c.org/dataeng/05.chapter\\_three.shtm](http://www.ca-c.org/dataeng/05.chapter_three.shtm), [www.caucasus.dk](http://www.caucasus.dk), [www.eurasia.ru](http://www.eurasia.ru), [www.rusngo.ru](http://www.rusngo.ru), [www.igpi.ru](http://www.igpi.ru), [www.caspiy.net](http://www.caspiy.net), [www.tierramerica.net](http://www.tierramerica.net), the USA government site ([us-info.state.gov](http://us-info.state.gov)), the site of Russian Ministry of Foreign Affairs ([www.mid.ru](http://www.mid.ru)), internet-papers: [www.turkmenistan.ru](http://www.turkmenistan.ru), [www.gazetasng.ru](http://www.gazetasng.ru) and many other.

## **Methodology and Research design**

**Object of the research:** Oil factor for the global energy balance

**Subject of the research:** The impact of the oil factor on the foreign policy of a state. The example is countries of the Caspian region.

**The aim of the research** is to figure out aspects of interdependency between energy complex, world energy markets and global politics, as well as to define the role of the energy factor in the international politics.

The aim means to answer the following theoretical questions:

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<sup>1</sup>Graham Th. Russia's Decline and Uncertain Recovery. Washington, 2002; Lieven A. The Secret Policemen's Ball: the United States, Russia and the International Order After 11 September // International Affairs. V.78. 2002. №2; Strobe T. Russia Hand: A memoir of the Presidential Foreign Policy. N.Y., 2002; Telhami S. Understanding the American Oil Strategy // Brookings Review. 2002; Zaslavsky A. Bush and Putin's Tentative Embrace // World Policy Journal Winter 2001 № 02; Kissinger H Does America Need a Foreign Policy Toward a Diplomacy for the 21 Century N Y, 2001; Smith D, Hellman C. Reforming the Sword Forces for 21 Century Security Strategy Washington, 2001; Kurth J. The American Way of Victory A Twentieth-Century Trilogy // The National Interest Summer 2000; Caspian Oil and Gas Pans, 1998; Goodby J. Europe Undivided The New Logic of Peace in US-Russian Relations, Washington, 1998.

<sup>2</sup> Globalization of Energy (In)Security, Perspectives on the Indian Ocean, Käkönen and Chaturvedi, 2005// ReOrient: Global Economy in the Asian Age, 1998 // Hinduism and the Clash of Civilizations, David Frawley, Frawley 2001 // Globalization, Waters, 1995.

- To see changes in the on-going globalization and show the importance of energy
- To see the oil factor and its role in global energy equilibrium;
- To evaluate geopolitical and oil parameters of Russia (from 90s onwards) as one of the dominant players in the region;
- To evaluate geopolitical and energy parameters of the Caspian region;
- To figure out the Caspian region's role in the energy diplomacy of external (non-regional) states and oil TNCs (Transnational Corporations);
- To define Caspian region's political role through the prism of it being an object of fierce political and economic competition between Russia and the USA, China, Iran on one hand, and between pre-Caspian<sup>1</sup> states, on the other.
- To analyze the role of China in the global oil market and in the global energy politics;
- To see the oil factor's impact on the trilateral relations of Russia-China-the USA;
- To analyze OPEC's activity in recent years.

**Type of the research is an explanatory case study**

The researcher will use the method of analytical deduction, starting from the historic perspective of theories of geopolitics, ongoing globalization and growing global consumption of energy resources shaped by the end of the Cold War, arriving at the point of particular states in Central Asia, whose economic and political sovereignty is under foreign influence. Careful analysis of the economic and political situation in Central Asia (Caspian region), study of foreign policies of Russia, the USA, China and other towards the Caspian region and its energy resources precisely, will provide the researcher with conclusions on how globalization of energy effects geopolitics and international relations in Central Asia and what is there to expect.

**Key Issues**

1. Geopolitics in the Globalization of Energy. Silk Road vs. Oil Pipelines. Historic perspective and modern reality.
2. Oil factor in relations between donor-states (rich with energy resources) and consumer-states (the USA, China, India, other)
3. Role of Russia in the “Big Oil Game” in the Caspian Sea
4. Oil and future international relations.

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<sup>1</sup> Pre-Caspian state means a state located at the Caspian Sea (see the map on the cover page)



## **Research Structure**

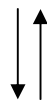
The research is mainly empirical. Theory is presented in a form of historic and modern overviews of globalization and geopolitics.

Theoretical part clearly states geopolitical importance of Central Asia and especially the Caspian region both in the past, at present and in the future. The difference is only in the shift from trade routes of various commodities into oil and gas routes. The author shows globalization as a cyclic phenomenon, where the rise of the West change the rise of the East in time depending on economic factors. Oil is one of the most crucial factors effecting both developed and developing states economically and politically. International relations of new millennia seem to be under a strong influence of oil factor as well, where diplomacy goes hand in hand with motives of survival. The author approaches the thesis from the point of view of realism.

Empirical data and analysis of various states' official documents as well as statements of states' leaders together with economic and statistical figures give a broad and clear picture on current geopolitics and international relations in Central Asia (the Caspian region). Assuming all these issues the author tries to show the motives behind the states' policies and draw a conclusion on the future of the Caspian region and international relations there.

The case study that occupies more than seventy percent of the research illustrates theory in practice. The aim here is to demonstrate causation between the following research variables:

Globalization and Geopolitics of energy (Silk Road vs. Oil Pipelines)



Oil factor in relations between donor- and consumer-states. "Big Oil Game"



Oil factor and future of International Relations in Central Asia

The research aims to show causal relations between recent global change in geopolitics towards energy resources, its effect on foreign policies of Russia, the USA and China; as well as the role of oil factor in their rivalry, development of the newly formed Central Asian (the Caspian region) states-donors and international relations in general .

**Major points in the case study:**

***1. The end of the Cold War, emergence of new states (Central Asia), development and challenges up to the present day.***

The end of the Cold War has reshaped the world politics. It has also given birth to new nation-states. Central Asia is a good example of it.

***2. Ways of foreign presence (and/ or indirect intervention) and the issue of economic and territorial sovereignty in Central Asia.***

Central Asian has become economically and politically attractive for various economic and non-governmental organizations and foreign governments. These forces have various missions in the region and influence on its political and economic situation according to their interests.

As S. Chaturvedi in his writing on globalization of energy quoted M. Klare (2001):

“Behind this shift in strategic geography is a new emphasis on the protection of supplies of vital resource, especially oil and natural gas. Whereas Cold War-era divisions were created and alliances formed along ideological lines, economic competition now drives international relations – and competition over access to these vital economic assets has intensified accordingly. Because the interruption in the supply of natural resources would portend severe economic consequences, the major importing countries now consider the protection of this flow a significant national concern. In addition, with global energy consumption rising by an estimated two percent annually, competition for access to large energy reserves will only grow more intense in the years to come.”<sup>1</sup>

***3. Oil factor, pipelines and geopolitical future of the region.***

Oil and gas are crucial factors for the regional economic and political sustainability. Various forces tend to control these resources. This factor shapes the geopolitical situation in the region. Since the region is landlocked, energy resources can only be utilized and transported via pipelines. There are various plans to build pipelines in different directions. Depending on a direction some forces gain, some lose. Oil factor seems to shape the future of international

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<sup>1</sup> Käkönen, Chaturvedi, “Globalization Spaces, Identities and (In) Securities, New Delhi, 2005, p.96

relations and global order in the XXI century.

### **Conclusion**

Methodological and theoretic base for the research: comparative, statistical, logic and analytical in working with foreign and Russian documents, materials. I have used a systematic approach to and comparative analysis in studying international relations. I used systematic methods in geopolitical, political, economic analysis, as well as synthesis and analogy.

### **Application of the research:**

This work is relevant in conditions of the on-going globalization. This research is applicable to various Russian and international ministries and departments of oil-gas companies since it contains a lot of useful theoretical and statistical information that may give necessary prognosis and answers on oil diplomacy of the developed and OPEC's states. This research can also be used for academic purposes in studies of the world geopolitics, economy and history, oil diplomacy and globalization of energy.

## **Chapter 1**

### **Theory: A different glance at Globalization**

Globalization is a phenomenon that is rather hard to define or put into a certain framework. Depending on an area of a research globalization is looked upon differently and comprehended from various angles. There are so many areas and sub-areas, historical implications as well as contradictions in globalization that it all makes this term multifunctional and diverse. Besides the diversity, globalization is a phenomenon that is constantly studied and debated upon. Global trade and geopolitical perspective of energy resources will be predominant focus of this research. Many scholars agree on the point that trade and economic demands are main driving forces for globalizing the world. Though, in most of the cases this dimension has also historic and geopolitical implications.

The existing (mostly European and American) theories on globalization connect this phenomenon with the rise of Europe, its industrialization and capitalism. However history might give a different perspective on globalization and its geopolitical and economic aspects.

## 1.1 Historical implication: Asian dimension

I have decided to take a perspective of globalization as a cyclic process of global development and exchange in a broader than Euro-American context. Susan Strange in “States and Markets” writes that theory can not ignore the past, neither the future, and can not be one-sided. All approaches have to be analyzed objectively and no system may claim to be universal. “There may be just as much for Europeans and Americans to learn from the political and economic history of India, China and Japan as from that of Western Europe and North America”<sup>1</sup>

When we speak about globalization we can not neglect the question of the historic rise of the West and decline of the East. Many European and American scholars have developed rather a limited perspective on studying global politics, economy and sociology, and keep on following this tradition up to the present day. Globalization is not an exception here. It has been viewed in Europe and America in a very limited and Eurocentric and/ or even Christian centric point of view, where Europe stands for a centre of the global development. Andre Gunder Frank in his remarkable book “ReOrient: Global Economy in the Asian Age”, 1998 gives clear scientific evidence on the significance of the global economy in shaping world history and politics of the day as well as underlines the importance of Asia, as the cradle of global trade and human civilization: “For my argument is that we must analyze the whole, which is more than the sum of its parts, to account for the development even of any of its parts, including that of Europe. That is all the more so the case for “the Rise of the West”, since it turns out that from a global perspective Asia and not Europe held centre stage for most of early modern history. Therefore the most important question is less what happened in Europe than what happened in the world as a whole and particularly in its leading Asian parts. I render historical events from this much more global perspective and propose to account for “the Decline of the East” and the concomitant “Rise of the West” within the world as a whole. This procedure pulls the historical rug out from under the anti-historical/ scientific – really ideological – Eurocentrism of Marx, Weber, Toynbee, Polanyi, Braudel, Wallerstein, and most other contemporary social theorists”<sup>2</sup>.

This point of view on history and global economic processes gives a different perspective on globalization. This perspective reflects the circular nature of global economy, where the West and the East are natural players in the competitive game. As Frank points it out in his work, the

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<sup>1</sup> Strange 1988, p.18

<sup>2</sup> Frank, 1998, p.xv

West has succeeded to climb on “the shoulders of the East”, but since these processes are circular, the East is able to reorient its position and return its central position in the near future. I am going to slightly touch this issue yet in the next chapters referring to the future of Central Asia (Caspian region).

This point of view, to some extent also “depoliticizes” the process of globalization and shows it as a natural process of global historic development of economic relations between peoples. This perspective rather gives equal chances to various parts of the world to rise and decline in a certain momentum of time, when values and economic demands change. It is in a way a circular historic civilizational perspective that explains the rise and the decline of various civilizations and/ or “centers” of the world in different times. Frank disagrees with the point of view on globalization to date back to the 15<sup>th</sup> century. He calls it plain Eurocentric perspective. Globalization as he proves it with number of historic evidences dates back to the times when China was the centre of the world and Asia was a centre of economic, political and social exchange of peoples. Trade routs from China via Central Asia to Europe, Middle East and other directions, ensured spread of goods, arms, knowledge and religions among the peoples of that time. These routs are still of a great political and economic importance especially now when Asia is slowly returning itself a position of a centre of world economy and politics.

## **1.2 Globalization as a political strategy**

Globalization of the day is most commonly associated with Americanization. Since the Rise of the North American dimension brought the United States and originated from it various international organizations and businesses to the central stage. To a large extent globalization dominated by increased cash and trade flows from the USA to other parts of the world, a dominated role of American financial institutions and non-governmental organizations, transnational corporations and a spread of “popular culture” make the term “globalization” be associated with “Americanization”. The pro-American globalization gives a one-sided and politically and strategically advantageous for a limited amount of states perspective. It brings a seed of political resistance and world-wide critique that by and large remains ignored by the USA. Globalization in its present form hardly deserves to be called “globalization” since it does not globalize people into “global civil society”, as Tila Kumar writes it in his article “Politics of

Globalism: A Hegemonic Discourse on Nation, Community and Humanity”<sup>1</sup> but creates more and more antagonism between developed and developing, poor and rich, Christian and non-Christian societies. To Tila Kumar’s mind, globalization under the flag of the USA is a process that brings more disintegration, chaos and instability to the countries that have just gained independence and sovereignty, or those non-Christian states trying to develop and that are economically “forced” to adopt American ways of democracy and political models. He writes: “History since antiquity has been characterized by the unequal development of regions. But it is only in the modern era that 'polarization' has become the immanent by-product of the integration of the entire planet into the capitalist system. And this modern capitalist polarization has appeared in successive forms during the evolution of the capitalist mode of production say in the mercantilist form (1500-1800 A.D) before the industrial revolution which was fashioned by the 'hegemony' of merchant capital in the dominant Atlantic centres, and by the creation of the peripheral zones (the Americas) whose function involved their total compliance with the logic of accumulation of merchant capital, then its crystallized form which grew out of industrial revolution, the post-war period (1945-90) and the most recent period, since 1990 - in which the accumulation of such transformations has resulted in the collapse of the 'equilibrium' characteristic of the world system. This evolution is not leading simply to a new world order characterized by new forms of polarization, but to global disorder. And such an on-going scenario of new world (dis)order has been glossed over by the triumphalism of inevitable 'globalization' at the same time as its precariously observed experience reveals. And the 'hegemony' of the United States, seemingly unchallenged today, is as fragile and precarious as the globalization of the structures through which it operates. And, pity, a country's position in the global hierarchy is defined by its capacity to compete in the world market B the triumphant mesmerizing which goes by 'profit' over 'people' ” Non-western cultures with a different religious background and political tradition tend to see globalization as a way of neo-colonialism and promotion of western values and system through expansion of global trade, information technology and presence of TNC (Transnational Corporations). In his book “Hinduism and the Clash of Civilizations”, David Frawley<sup>2</sup> writes: “The negative side of globalization is a disturbing neo-colonialism— the continued projection of western and European civilization and its values for everyone, just as in the colonial era. The new multinational corporations appear like a continuation of old colonial businesses like the East India Company. Modern technology

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<sup>1</sup> <http://www.zmk.uni-freiburg.de/CulturalGlobalization/Workshop/paper-tkumar.htm>

<sup>2</sup> <http://bharatvani.org/books/civilization/index.html>

allows companies to control other countries without the need of a military presence, through money, capital and media alone, which doesn't necessarily make such control more just or less obtrusive."

Oil factor is another dominant issue in the politics of globalization. It is a factor that goes into all spheres of the modern politics and economy and whose impact on diplomacy of a state is enormous.

### **1.3 Globalization of energy and geopolitical re-orientation**

In various historic times, geopolitics served economic and political interests of dominating powers. Various lands and states in various times were more or less economically or strategically important than other. The term "Geopolitics" was firstly mentioned by a Swedish political scientist Rudolf Kjeflen at the beginning of the 20<sup>th</sup> century. Later on, this term was widely used in Central Europe especially in Germany. German political scientists developed several geopolitical theories that served the Nazi regime in early 30s-40s.

Geopolitics is a combination of two sciences geography and politics. Geopolitical theories aim to answer questions about geographical spaces, natural resources, nation states and foreign policies of various states towards others. Mackinder, a British geographer of the 20<sup>th</sup> century formulated the Heartland theory in geopolitical science that served political needs of various powers during the World Wars I and II and the Cold War period. Partly it is still valid and applicable in the modern International Relations, and can be used to explain some conflicts of the day. Mackinder stated that Heartland (Eurasia and Eastern Europe) are geopolitically and strategically important, and those powers who rule these lands are in a more advantageous position than the other. This theory influenced foreign policies of major rivals, the USA and Russia, during the Cold War period. Nevertheless, Heartland, that meant Eastern Europe and Central Asia, have been strategically located since times immemorial and created a lot of myths and temptations for those who aimed to rule the world. As Frank writes in his book "The Reorient: ..." Asia and its enormous wealth had been the target for the Europeans for ages. Besides this fact, Central Asia for example, due to its geographic location had to become a battle field for various rivalry powers. Central Asia is also a cross-road on the main Eurasian trade route, the Chinese Silk Road. Ethnographically speaking, this region laid through major migration routes and was a place of ethnic and cultural mix. Its demographic and historical-economic value could not and

can not be underestimated.

On one hand, one location can be a source of successful economic, political and cultural development; on the other hand, another location can become a source of constant conflicts and/or economic and political disputes in a region. In case of Central Asia, it is obvious that the location has been playing the vital role in the regional development since long ago. Analysis of historical facts will help here to build a clear picture on the significance of the geographic location of Central Asian region and its future. (Additional information on Geography and geopolitical importance of Central Asia see in Appendix 0).

#### **1.4 Central Asia: Historical Geopolitics**

History of Central Asia dates back to 1200 BC. It has been occupied by various tribes, dynasties and later on empires. Starting from ancient times up to the rule of Timur (Tamerlane) Central Asian lands had a vital geopolitical and geo-economic importance for those who tried to conquer and rule it. These lands at various historic points were ruled by Cimmerians, Scythians, Greeks, Persians, Chinese dynasties, Turks, Arabs, Mongols, Ottomans and Russians.

Up to the 15<sup>th</sup> century, Central Asian lands were a part of the Great Silk Road linking Asia with Europe, Middle East and Africa. The decline of trade volume over the Road didn't though diminish the economic importance of the region. As Frank agrees in his book with other historians, the rising demand for Russian Siberia and new routes through Russian lands have moved the trade up to the North<sup>1</sup>.

First of all, the Silk Road was neither a single route nor was it limited by the trade of silk. The Silk Road consisted of a number of routes with the major trade point in Central Asia, called Kashgar. From Kashgar, goods were transferred further to Europe, Middle East and Africa. Geographically, Central Asia is surrounded by deserts, steppe valleys and high mountains and has a severe climate. Historically, MacKinder, Mahan, Spykman concluded the importance of the region into the following framework: trade routes, a bridge between Europe, Russia and the rest of Asia, a middle way to the Indian Ocean, resources and goods of high demand. Major products and goods of the region were horses, camels, furs, swords, sheep and other domestic animals, jade, ginseng, medical goods, precious metals, especially silver and gold. Many routes

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<sup>1</sup> Frank, 1998, p.124-125



went via Central Asian cities and trade centres: Bukhara, Balkh, Khiva, Samarqand, Kabul and many others. Northern routes went via Siberian towns up to Moscow and further to Western and Eastern Europe. Western routes went to Persia, Anatolia, through the Black Sea to Istanbul and the Mediterranean region. Southwards, the route went to India and led to the Indian Ocean. To the East, it was the old Silk Road from and to China and North-eastern Siberia. Besides the horses and livestock, such goods as skins, furs and hides; fibers, silk, other textiles of all sorts and kinds, various dyes, metal ware; ceramics and works of ceramics; all kinds of foods from sugars, spices to fruit and grains; tea, tobacco, precious stones and coins, were transferred along the routes via Central Asia. Some of the routes were more secure, some less. Those who controlled the routes gained more political power in the region and collected tributes from the trade and goods transit. Moreover, the trade of slaves (mostly non-Christian and non-Muslim) from India and other places of Asia and Africa was another important aspect for Central Asian economy of the past. After the 15<sup>th</sup> century European development was boosted and its military power was slowly increasing. Asian wealth, control over the main trade routes and especially access to the Indian Ocean had tempted Europeans for many centuries. It was the era of famous battles for control over the marine space as Mahan explained it through his geopolitical theory. Already by the time of the decline of the famous Silk Road, and rising of European powers Central Asia still played the role of a trade-route cross-road though politically was getting weaker before the rising powers from the North and North-West.

Geopolitical perspectives change depending on time and rivalry between the states for territories and resources as Chaturvedi noted in his article “Globalization of Energy (In)Security, Perspectives on the Indian Ocean”<sup>1</sup>. Central Asia whether it was the trade cross-road or stayed on the way to the Indian Ocean, it had various geopolitical and geo-economic perspectives in various times along its historic existence. Russian interest in Central Asia for several centuries was mainly within the framework of imperial expansion. Later on, when energy resources were discovered and their demand and consumption was growing, it was set as a reserve place. Moreover, during the Cold War Central Asia (the five USSR republics: Kazakhstan, Uzbekistan, Turkmenistan Tajikistan and Kyrgyzstan) were under the political shadow of the USSR and the unique geo-strategic policy of the USSR against the USA and its allies. This rivalry and the geo-strategic location brought instability and economic slowdown to the region. The Afghan war (in the 70-s-80s) even more contributed to this process. It was the border location between relatively (ethnically speaking) similar but ideologically different lands of the same region. (Tajikistan and

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<sup>1</sup> Käkönen and Chaturvedi, 2005, p.96-97

Afghanistan). Although the ideological and economic war between the USA and former USSR has been officially over for over 15 years, the degree of threat for new civil and/ or international conflicts and economic instability of the former USSR region of Central Asia remains high. The end of the Cold-War was an official end of the rivalry between two Super Powers, the USA and the USSR. In fact, the collapse of the USSR meant the collapse of the USSR power that proved to be far away from “Super”. However, it seems that although Russia had been left politically isolated and full of internal problems, its position and influence on former members (republics) of the USSR still remained. Even though, it meant that the Cold-War within its old ideological framework had come to an end, the rivalry continued and got to the new economic level. Accelerating economic and technologic globalization has brought back to the world political stage those powers who once ruled the whole Eurasian continent, China and India. On one hand, the present world seems to be multipolar, with multiple involvements of various powers and political interests; though on the other hand, when taking a more detailed look, the economic power of the USA seems dominant in the world of economic globalization. If historically power was derived from the control over vast territories and empires, colonies, slavery and control over sea and land trade routes, the geopolitical power of the day is a control over a vital economic resource, energy. Economic globalization, growing population and technology slowly raised energy resources onto the pedestal of the most demanded. Like never before, the modern world is dependent on energy resources, and those who control them seem to gain power in the world. Recent conflicts and international political disputes have demonstrated that the rivalry of the Cold-War has been transformed into the Oil-War, where the amount of rivals noticeably increased. The USA and Russia found themselves in the same boat with China, Iran and India. Booming economy of China, rapid development of other parts of Asia, demographic growth of the world population (mostly in Asia) and growing nuclear power of India, unstable situation in Iran and Middle East make the competition between countries even more fierce and less predictable.

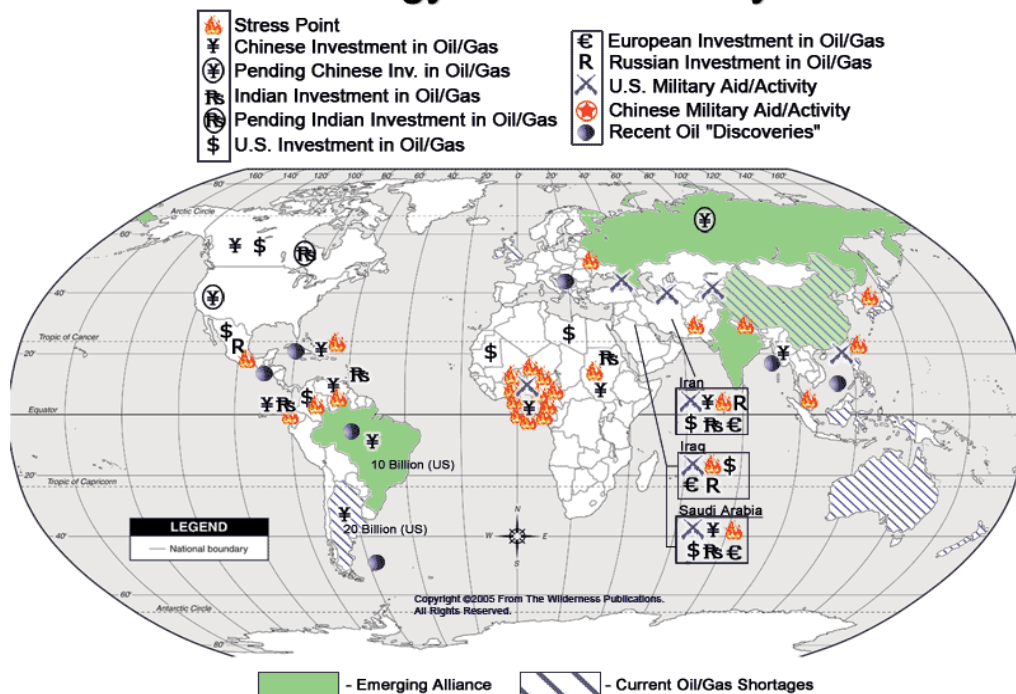
Oil, Gas and Coal seem to rule the minds of people. New coal mines and places rich with oil/ gas immediately draw international political interest. “The complexity of energy flows lies not only in the global nature of commercial energy but also in growing interdependence between the resource-suppliers and resource-consumers, especially those consumers whose dependence upon imported sources of energy is critical”<sup>1</sup>. This simple economic mechanism of demand and supply naturally divides various nation-states into two groups: those of donors (suppliers) and those of

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<sup>1</sup> Käkönen and Chaturvedi, 2005, p.93

consumers. The donors find themselves in a situation of constant political and economic pressure from those heavily dependent on the supplies. In this way, the donor-states are usually in a weaker position and are dominated by policies of consumer-states whose political and economic infrastructure is more developed. Hence, serving the resource demands of the consumer-states, the donor-states are not able to develop independently from the consumer-states, and hence fall into the category of states serving interests of one or another bigger player-consumer. Depending on whose interests they choose to serve makes them allies of the rivalry parties in the Big Game as well as ensures certain gains or losses.

### World Energy Picture January 2005



The economic situation in the world, and the recent Middle Eastern wars together with the occupation of Afghanistan in 2003, proved energy resources to be crucial for the power and domination in the world. For more than two centuries and especially after the 1970s oil factor got to dominate foreign policies of various major players (see the map above)<sup>1</sup>.

This brief historic overview has demonstrated the geopolitical importance of the region. It was

<sup>1</sup> [http://www.fromthewilderness.com/images/maps/World\\_big.gif](http://www.fromthewilderness.com/images/maps/World_big.gif)

and still is one of the locations that drive world geopolitics, though its perspectives change: from trade routes and the access to the Indian Ocean to the energy resources and pipeline routes.

## Chapter 2

### Geopolitical and Oil Parameters of Russia and CIS states

#### 2.1 Oil Infrastructure and Russian Energy Strategy



Source <sup>1</sup>

At the beginning of 90-s of the XX century huge Central Asian and Caucas oil reserves development on the territory of the former USSR began. It led to the point that CIS space has become a battlefield between world companies for the right to develop and transport the “black gold”. Issues of oil transportation and pipelines have become vital for various ministries of foreign affairs. Competitors from abroad have limited Russian participants in the area of their traditional political and economic interests. Russian oil companies had to take

<sup>1</sup> [http://globalguerrillas.typepad.com/globalguerrillas/2004/07/long\\_term\\_gg\\_ta.html](http://globalguerrillas.typepad.com/globalguerrillas/2004/07/long_term_gg_ta.html)

responsibility to restore the status of the Russian Energy Complex on the post-Soviet space. Among these companies the most active turned to be LOOKOIL, ROSSNEFT, YUKOS, SLAVNEFT, SYBNEFT and TRANSNEFT. Though, the new period in the oil politics has been formed on the basis of the past and has kept the features of the former era of the raw-material dependence as well as the former model of participation in balancing energy on regional and global levels.

The condition of the Russian raw-material base is one the major factors that defines the level of oil production and its supply abroad. According to the known data, Russia is definitely far behind the Middle Eastern oil reserves. Growing critical events in the Russian economy at the beginning of the 90-s had a huge impact on the Russian oil industry. From 1990 till 1997 oil production in Russia decreased up to 1,7 times. Though it has been slowly stabilizing and even growing from 1997<sup>1</sup>.

It is expected that the level of oil production in Russia will in many ways depend on the overall economic development in the country. If Russia manages to create positive climate for foreign investments, develop high-tech sector and form favorable conditions for economic development, it will be possible to expect further growth in oil production and its supply abroad. In this case, the role of Russia as an energy product supplier will increase.

In fact, “British Petroleum” company has issued some statistical data on Russian oil reserves. According to the British analytical estimation, there are about 60 milliard barrels of oil left in Russian reserves. Taking in account the present pace of oil production, these reserves should be enough for the next 22 years. Taking into consideration Russian economic dependency on oil, whose production ensures 10% of Russian GDP, this forecast is hardly optimistic.<sup>2</sup>

It is a known fact though that information concerning oil reserves remains strategic and secret. However, all estimations from independent experts or sources are at least two times lower it does not stop various international companies or agencies in this area to publish their own data. That is why these estimations vary between each other a lot. As an example, if “British Petroleum” believes that Russian oil reserves are enough just for 22 years of production

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<sup>1</sup> Energy Statistics Yearbook. V. N.N.Y., 2002. p. 17.

<sup>2</sup> Russian Magazine on Politics and Economics “ИТОГИ” : Итоги. 2003, July 29 . p. 28.

(current oil production is about 7,7 millions barrels a day), then International Petroleum Encyclopedia estimated Russian oil reserves of about 136,5 milliards barrels. As for the World Bank, their figures differ as well. Their estimations on Russian oil reserves are of 87, 6 milliards barrels. This difference in estimation is probably due to difference in approach to reserves classification. So far there are more than 150 classification systems in the world, where each country prefers using its local methods of evaluation.<sup>1</sup>

Russian oil reserves classification developed yet in the former USSR and still used by various Russian agencies is based not on a commercial but on a geological research data. As a result, these estimations are more real since they do not estimate only a part of reserves that is easy to get out to the surface with the help of modern machines but take in account all potential geological reserves as total. According to the data published by the industry leaders, total oil reserves are about 58,8 milliard barrels. However, it is necessary to mention that here we are speaking about so called confirmed reserves, meaning those that are ready for exploitation. Other oil reserves that are newly discovered or potential are not taken in account here. Investment Company “Troika-Dialogue” has confirmed the same on oil reserves stats. They mentioned that a lot of small oil reserves developers (that are about 130 in the country) are not taken in account. Adding them to the last figure, Russian oil reserves estimation figure rises up to 73 milliard barrels. Moreover, together with those reserves that are not yet registered and are about to get licenses, total estimation would be about 120-130 milliards barrels. Then, when current oil production is 7,7 million barrels a day, Russian oil reserves should be enough for at least 40-45 years ahead.<sup>2</sup>

After the Soviet Union collapsed balance of Russian oil export has changed. Oil exports to the CIS countries were slowly decreasing, when the export to the so called “far abroad” was growing. Within the former USSR, Russian oil supplies have dropped down to less than 25 millions tones (mln.t.) in 1997, where supplies to the Ukraine were 9 mln.t., to Byelorussia – 10 mln.t., Kazakhstan – 1,6 mln.t., Lithuania – 4,2 mln.t.<sup>3</sup>

Decreased Russian oil supplies to the CIS can be explained by the payment crisis in the former USSR republics and not by the decreased export capacity of Russia. Azerbaijan, Georgia,

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<sup>1</sup> Russian Magazine on Politics and Economics “ИТОГИ” : Итоги. 2003, July 29 . p. 28.

<sup>2</sup> See Reference 1 (same)

<sup>3</sup> Russian Journal InfoТЕК: stats, documents, facts: ИнфоТЭК: статистика, документы, факты, 2003 №2.

Uzbekistan have totally stopped oil imports from Russia. Those left Russian oil importers are the Ukraine, Byelorussia and Lithuania. They do not have any access to oil resources abroad the former USSR. Kazakhstan oil is supplied to them again through the Russian pipeline. Actually most of oil to the CIS is transported via pipelines. It is about 97% of all transported volumes. From the point of view of the oil infrastructure abroad from the CIS, it is important to mention two regions: economically developed and Central and Eastern European states. Before the Union of Economic Cooperation collapsed, members of this organization had been satisfying their energy needs through constant oil supplies from the USSR. Their oil imports accounted 77% at the end of 80-s. With the collapse Council of Mutual Economic Assistance (COMECON)<sup>1</sup> of the Eastern Block Russian oil supplies to Central and Eastern Europe have noticeably decreased. If yet in 1989 Soviet oil export to Central and Eastern Europe reached 64 mln.t., then from 90-s onwards export to these states has more than two times decreased, and has been about 30 mln.t. Export of chemical oil goods has almost stopped.<sup>2</sup>

One of the main reasons of the Russian oil export decrease to the Central and Eastern European states was a collapse of economic collaboration and interdependence between former Soviet block states. Another reason for that was low energy demand as a result of the occurred economic slowdown and decreased economic activity. Central and Eastern European countries would reduce their dependence on Russian oil and try to even resist oil supplies from the East. However, already in 1997 Russian oil exports to the developed countries has grown over 70 mln.t.<sup>3</sup> Most of the oil supplies go to Western Europe. Russian oil export supports oil sources diversification and lowers Western European dependence on oil supplies from Persian Gulf and other OPEC's member-states. The biggest importers of Russian oil are traditionally Germany, then France, Finland and the UK. In recent years Switzerland and Ireland were added to the list. In order to launch structural changes and develop Russian economy further it is crucial to keep its oil export on the same or higher lever at least for the next 10-15 years. Modern structure of export in Russia is analogical in many parameters with many developing

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<sup>1</sup>The Council for Mutual Economic Assistance (COMECON / Comecon / CMEA / CAME), 1949 – 1991, was an economic organization of communist states and a kind of Eastern Bloc equivalent to—but more inclusive than—the European Economic Community. The military counterpart to the Comecon was the Warsaw Pact. (Source: [www.wikipedia.org](http://www.wikipedia.org))

<sup>2</sup> Scientific Journal: Вестник научной информации ИМЭПИ РАН, 1998. №2. p.15

<sup>3</sup> Energy Statistics Yearbook . 2002. p.17.

countries with the liner raw-material export orientation. Multi-structural export orientation is harmful for Russia in the world oil markets. In order to overcome the direct raw-material and mono-structural model of export, and for implementation of technological models in economic development, it is wise to increase the role of the state in the area of economic development and modernization. Russian oil export capacity is an effective tool in oil diplomacy and foreign policy. Oil factor is among those milestones on which Russian diplomacy in its attempt to play a bigger role in the world economy relies on. It is getting more important at present, when economic position in other spheres have got weaker.

Cooperation within the European Energy Charter creates positive climate for Russia to move to the market economy and integrate itself with the European systems including financial and trade ones. Russian participation in one single European energy market creation helps improve efficiency of pipelines, make one oil transporting infrastructure within entire European continent. In order to strengthen Russian position in the world oil market development of relations with OPEC seems to be crucial for Russia. Nevertheless, in case Russia would enter OPEC, its activities then would be extremely conditioned to export quotas. This fact in turn would negatively impact its economy since oil is one of the main sources for foreign currency supply to Russia. At the same time, it is vital for Russia to cooperate with OPEC. It gets even more important when we take a look at the economics of oil on the world market. It shows that supply is always ahead of demand, and for the market stabilization cooperation between all oil-producers becomes necessary. It is also beneficial for Russia to keep economic relations and develop bilateral cooperation with separate OPEC member-states. It gives in turn opportunity get maximal dividends from realization of OPEC's policies that aim to regulate oil prices, without any obligations in terms of oil production and export regulation.

Russian collaboration with International Energy Agency will have a global energy stabilization effect, will mold market infrastructure in Russia and make its economy more efficient. Effective use of energy resources may reasonably increase oil export potential. As for the future, Russian role in the world oil supply will be determined mainly by its export capacity and ability to overcome crisis in economy. This in turn will help Russia become a significant member of the world society.

Russian oil pipeline system has been shaping as a part of a Single system of oil supply (ESN) in the former USSR. This system made possible oil supplies to 8 republics of the former USSR



(the Ukraine, Kazakhstan, Byelorussia, Lithuania, Latvia, Uzbekistan, Turkmenistan and Azerbaijan) as well as to 8 states abroad the USSR (Germany, Poland, Czech Republic, Slovakia, Hungary, Slovenia, Croatia and Serbia). At the base of this energy system stays the oil pipeline system. Its exploitation is launched by “Transneft” former “Glavtransneft” (Head Department for Oil Transportation) that was founded in 1970 and was one of the departments of the former Ministry of Oil Industry of the USSR. At the moment the system of “Transneft” includes 12 regional pipeline co-operatives that are its daughter companies. The majority of USSR’s pipelines are on the territory of Russia. At the end of 1990 the total area of oil pipelines in the USSR was 66200 km, out of which 51000 km (77%) was in the Russian territory.<sup>1</sup> For comparison, oil pipeline system of the USA counts 106800 km of oil pipelines. After the USSR collapse the actual oil pipeline system configuration has not changed at all, though traffic capacity of some pipelines has declined, and partly was out of exploitation. From Volga-Ural region the pipeline system was formed in three directions:

- North-Western (Moscow and St. Petersburg)
- Western (Eastern Europe)
- Eastern (Siberia)

15 mln t. a year is transported by railroad; more than 5 mln.t. of oil is transported by water (along Volga and the Caspian Sea).

With the collapse of the USSR Russia has lost its access to export sea oil terminals that are situated on the territories of the former USSR republics. Almost half of oil products supply to the far abroad is launched via seaports that are located in the former USSR republics. These sea oil terminals that are exploited for the oil export to the far abroad are used till their maximum capacity. This system of oil transportation has been created within the USSR and had to serve centralized economy. Oil exporting system share was also directed to the solution of economic and political problems of the soviet regime. And at the moment it doesn’t satisfy market economy demands. This is precisely one of the factors that limit Russian oil export to far abroad. The deficit of the oil infrastructure that would satisfy oil export needs has appeared even when the oil supplies abroad have enormously decreased. The reason for that is the change in the flow of oil volumes along basic directions. Before the USSR collapse the main share of the produced oil was shared among oil refineries within the country, and its major part was transported along “Druzhba” to the Eastern European states. After the sudden decrease in

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<sup>1</sup> Russian Journal: Трубопроводный транспорт нефти 2001. №3. p.9

demand for oil in the former USSR republics and Eastern Europe, major exporting lade was moved to the sea port. As a result, the busiest places for oil traffic became exporting ports and leading to them pipelines. (see the map below)



Source<sup>1</sup>

One of the major exporting Russian oil routes is “Druzhba”. Along this route oil is transported to Czech Republic, Slovakia, Hungary, Poland, eastern regions of Germany, and in some cases to the former Yugoslavia. The Southern route of oil pipeline “Druzhba” stretches along the western Ukraine and on the border at Uzhgorod splits into two branches. One of them goes to Slovakia and Czech Republic, and another one – to Hungary. In the territory of Hungary “Druzhba” joints “Adria” pipeline, that is meant to transport Middle Eastern oil to Eastern Europe. In early 90-s, during the war in Yugoslavia, “Adria” pipeline was shut down and “Druzhba” remained the only source for external oil supply to Hungary.

At present “Druzhba” does not work at its full capacity. This available capacity gives a room to increase oil supplies to the Eastern European market. Nevertheless, in order to increase the use till its full capacity, huge investments are needed. For instance, at Uzhgorod region, the

<sup>1</sup> [www.worldpress.org/images/maps/central\\_asia1.gif](http://www.worldpress.org/images/maps/central_asia1.gif)

diameter of lines going to Slovakia has decreased till 530 and 720mm with the capacity of about 20mln. tones a year.<sup>1</sup>

Within the framework of Russian pipeline system two major pipeline knots are used. They are located in Samara and Yaroslavl. From Western Siberia, Kazakhstan and Volga-Ural region the oil comes to Samara. From here it is transported along the “Druzhba” pipeline to Belarus and Eastern Europe, as well as to export terminals in the Black sea – Odessa, Novorossiysk and Tuapse. In Samara the oil is mixed, and there is a good capacity for its storage. This city is also a big centre of oil refinery. There are three oil refinery plants in Samara. They are able to refine about 30 mln. tones of oil a year.

From Western Siberia, Komi and Volga-Ural region the oil is also transported to Yaroslavl. Here there are same services as in Samara for preservation and mixing of oil, as well as there is an oil refinery capacity. From Yaroslavl oil goes to refinery plants in Kyrgyzstan, Belarus, Lithuania and to export terminals of the Baltic Sea, as well as to Primorsk. In the territory of Belarus the major exporting “knot” is located in Novopolotsk, from where oil comes to Latvia and Mazhaisky Refinery Plant (Lithuania). Oil comes to Novopolotsk from Yaroslavl or from a branch of “Druzhba”. Major Russian ports for oil transportation abroad are located in the Black Sea. They are Novorossiysk and Tuapse. The biggest volume of oil to CIS is transported via pipelines.

In august 2003 Russian Government has declared Energy strategy of Russia for the period till 2020. According to this strategy the total amount of the national energy consumption on the Russian market will increase till about 1145-1265 mln.tones. Depending on the pace and development of the world economy, Russian export will change within the range of 150-310 mln.t. a year, the gas export will also increase from 275 to 280 mlrd. cubic meters by 2020 years. Production of oil is also expected to increase till 450-520 mln.t. by 2020. Oil production will develop in Western Siberia, Povolzhye, Northern Caucus, as well as in oil-gas provinces of the European North, Eastern Siberia and Far East, in the Northern Caspian oil-gas province. By 2020 it is expected that oil refinery volumes will reach 190-215 mln.t. a year.<sup>2</sup>

Other systems of oil transportation such as Northern Baltic, Kolsk, Novorossiysk,

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<sup>1</sup> Research on Russian oil export and transportation, Washington 2002, p.181

<sup>2</sup> Russian Federation Ministry of Energy. Moscow August 2003

Mediterranean and Eastern directions will get developed.

Total investments for the Energy Strategy realization for the period of 2001-2020 are estimated from 625 to 745 mlrd. dollars, where investments for energy production industry will make 540-630 mlrd. dollars.<sup>1</sup>

Several measures are expected to be taken in order to create a better climate for bigger investments to energy complex development. They expect to continue energy complex development on the basis of division between monopolistic and potentially competitive industries and further development of natural competition in these industries. The main goal for these reforms is to decrease industrial costs and create a better climate in its organizational and financial areas.

In order to develop the oil industry it is necessary to optimize all elements in the state's economic policy: tax politics, mining regulation, small and intermediate business support, stable and for all acceptable rules for more convenient utilization of oil transportation infrastructure.

One of the crucial issues in the Energy strategy of Russia is integration into the world energy community. Russia's role in the world energy markets is one of the major factors both for the national economy development and for its economic and political positioning in the world community.

According to the Strategy, Russian international activity will be launched along the following directions:

- export of energy resources;
- development and production of energy resources in the territory of other states;
- local presentation and position in the foreign energy markets, co-ownership of energy network and infrastructure in these states.

This Strategy might improve the climate in relations between the CIS and help integration within this framework.

## **2.2 Oil infrastructure and oil factor in CIS integration**

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<sup>1</sup> Russian Federation Ministry of Energy. Moscow August 2003

Modern tendencies of the world community development pay high interest in parameters and limits of development of market relations that are formed within and between integrating groups. On one hand, it is possible to see processes of regional integration for reformation of world market of goods, services and capital. On the other hand we can notice collaboration between them for strengthening their influence on the world economy.

CIS can not avoid participation in these processes due to their geopolitical and socio-economic status. As an international practice shows, many problems that CIS are facing can be solved by active co-operative efforts, by one CIS market creation. This market would ensure free flow of goods, services, labour and capital. The first step in this direction, to our mind, would be creation of free trade zone.

The CIS energy resource platform seems to be enough to fully satisfy energy demands of all members, both at present and in future. Analyzing conditions of oil industry, it is important to mention that decrease in oil production in CIS has basically happened due to its decrease in Russia. Better condition of the oil industry can be seen in Uzbekistan. This state has completely refused import of oil. Critical condition and decline in oil industry in Kazakhstan has been successfully overcome and its oil production level has reached the point prior to the crisis. It has happened by and large due to the politics of attraction of foreign investments to its oil industry.

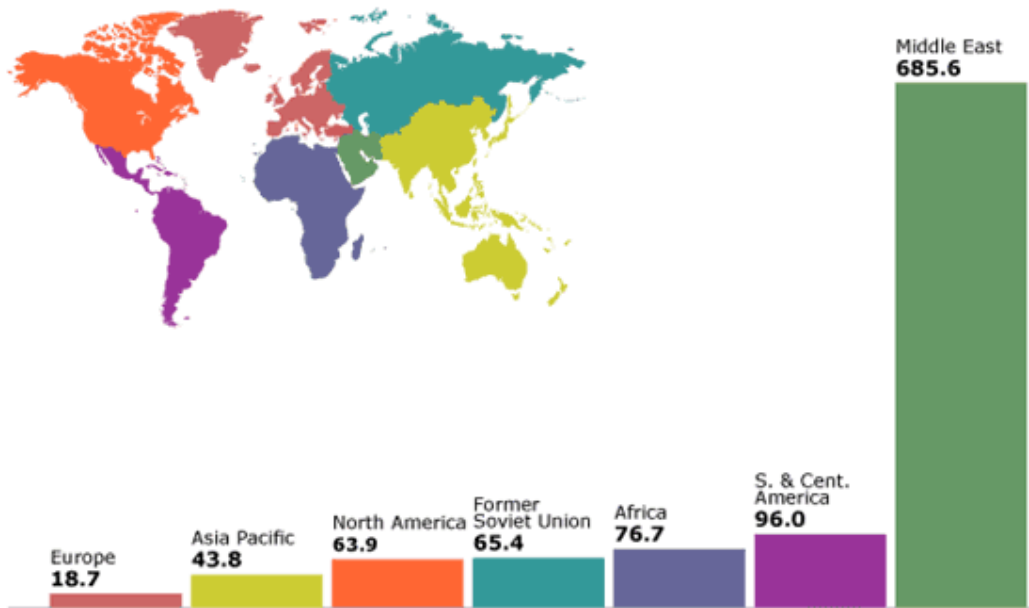
There are two oil basins in Caspian Sea. One is Southern Caspian that includes Azerbaijan and Turkmenistan. Another is Northern Caspian that includes partly Russia and Kazakhstan. Both basins have huge oil reserves. The southern basin has been exploited and developing for over 100 years. Its oil capacity is well-known. Currently it is estimated of 17,5 mlrd. barrels that corresponds with Northern Sea reserves. Some geological sources claim the Northern Caspian to have even larger oil reserves equal to the current volumes. The geological situation of the Southern Caspian though is completely different. Known reserves of Kazakhstan are 10 mlrd. Barrels so far, however it is possible to assume that one or two more reserves will be soon found. These reserves may be equal to the reserves in the Northern Sea.<sup>1</sup>

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<sup>1</sup> World Energy Outlook 2002. Paris, 2002. p.4.

## map of proved oil reserves at end 2001

Thousand million barrels



Source<sup>1</sup>

We are facing the region that is of a global interest due to its huge oil reserves (30-50 mlrd. barrels), however we can not compare it with the regional resources of the Persian Gulf. Despite the fact that these reserves are definitely significant, the question of how to transform them to the real production remains open. If we look at Azerbaijan from this angle, we shall see that its oil export capacity is about 3-4 million barrels a day. If we take in account the amount of agreements on production sharing and investments made into its oil infrastructure, we can definitely expect Azerbaijan's production potential to increase to its maximum 1,5-2 mln. barrels a day by 2010.<sup>2</sup>

Kazakhstan with its significant resource base may produce million barrels a day. In case of successfully fulfilled modernization program, this figure may grow up to 2-2,5 mln. barrels a day by 2010.

<sup>1</sup> [http://www.fromthewilderness.com/free/ww3/071102\\_pipelineistan\\_map.gif](http://www.fromthewilderness.com/free/ww3/071102_pipelineistan_map.gif)

<sup>2</sup> Russian Journal: Ведомости. December 2, 1999.

Within the next decade Caspian region will be able to provide the world market with about 3-4,5 mln. barrels of oil a day. Roughly speaking, it might access about 3-5% volume of the world demand. Hence, Caspian region can be seen as one of the important world suppliers, though it needs to find the most convenient and not far markets for its energy production.

In long-term perspective, the cheapest export market for the Caspian region would be Iran, since its Northern part can consume up to 300-350 thousands barrels a day. It means that the same quantity of raw oil can be transported from its ports to the south of the country. This will in turn lower local transportation costs.

The CIS oil refinery industry, whose capacity is about 12% of the world's one can be characterized by low technological level of equipment. The depth of oil refinery at Oil Refinery Plants in CIS still does not exceed 63%. However, for the last ten years these figures have got better. For comparison, in developed countries these figures are 85-90%.<sup>1</sup> For the last several years oil production decline in the CIS was estimated about 6% a year. Moreover, oil production plants on the territory of the CIS are not more than 60% loaded.<sup>2</sup>

The biggest problem in development of co-operation between CIS countries in the energy field remains inability of some states to perform payments in time. Difficulties in forecasting this problem solution make development of energy balance hardly possible. Hence, payment overdue or inability to make payment for energy services negatively impact on the current level of collective energy security in the CIS.

Energy sector precisely accouters most of credits and debits from CIS. Due to this problem many energy sector organizations appeared at the edge of bankruptcy. Biggest CIS debts before Russia are for natural gas. In order to solve this problem it is necessary to develop forms and mechanisms to decrease amount of overdue payments. It is important to develop the system of payments through specially issued CIS bonds or debt obligations that would convert debts into property obligations and other.

As it has already been mentioned, many CIS states (especially the Ukraine, Belarus, Moldova)

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<sup>1</sup> Нефть и газ во внешней политике России, Москва / Фонд внешней политики России М., 2001. р. 17.

<sup>2</sup> Periodical: Мировая экономика и международные отношения. 1998 № 2. р. 14

are still facing a strong dependence on energy import from Russian Federation, from where they get the biggest amount of consumed oil and other energy resources. It seems to be quite problematic for these states to find other energy sources. Russia together with other CIS states is energy exporter and is interested in national energy market sustainability within the CIS.

In the CIS energy sector there have been more than 30 TNCs and co-operatives founded. These entities currently operate in Russia, the Ukraine, Belarus and Kazakhstan. The most active part in creating TNCs in CIS take oil corporation “Lookoil”, “Gasprom” and “Rosneft” (Russia), “Munaigas” (Kazakhstan), “Ukrigasprom” (the Ukraine), Oil and gas producing companies in Azerbaijan, “Gruzenergo” (Georgia). Some additional international companies are created within the CIS energy sector that produce gas pipelines with a protective surface shield (Russia, the Ukraine, Kazakhstan), oil pipes (Russia, Azerbaijan, the Ukraine, Kazakhstan) and other.

Energy producing CIS states are trying to access world energy markets in order to obtain guaranteed income in stable currency and lead independent international trade politics. For Russia, it first of all means an increase in oil and gas supply to Western European states. For Kazakhstan, Azerbaijan and Turkmenistan it is a chance to realize oil and gas export projects abroad. Energy supplies from CIS provide about 10 % of the world trade, and natural gas supplies are about 30 %.

Before the USSR collapse there was no issues of oil security in separate republics. Since then the situation has radically changed. Within free market, oil security issues have touched all CIS states. Recent years experience showed that for CIS energy net-exporters, it is rather difficult to provide internal energy security, mainly due to consumers’ overdue payments or delays in payments for energy supplies, constant energy prices and tariffs growth, no legal base and clear legislative regulations.

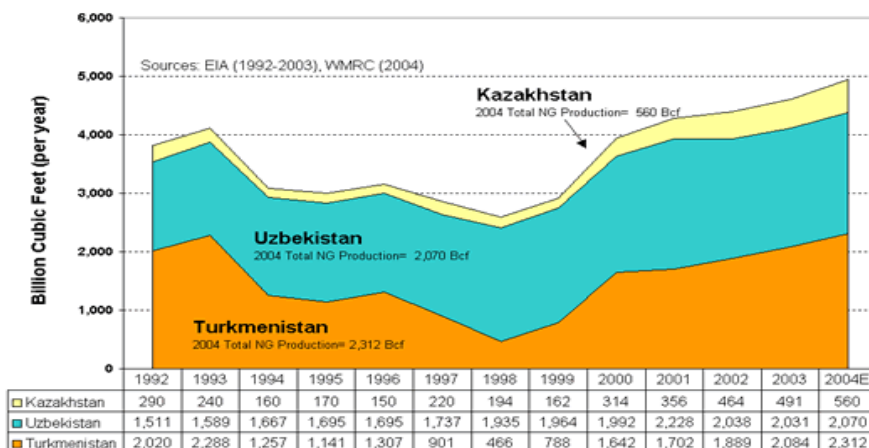
More than ten years passed since all CIS states had been a part of one state – the USSR, with the unique for all energy balance and infrastructure. At present, known gas and oil reserves in Russia account 84% of all proved reserves in the CIS, and 64% of coal. Russian share in every



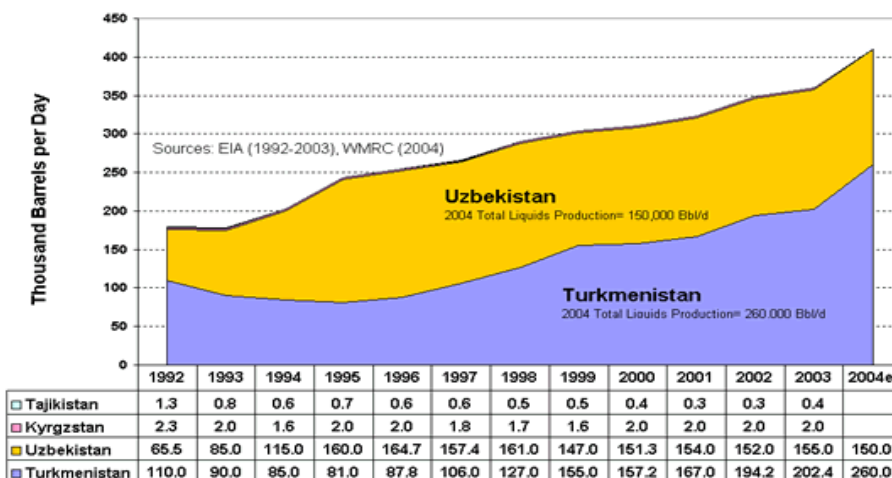
organic energy resource production and its energy industrial potential share are the same.<sup>1</sup>

Among 12 CIS member states production of energy raw materials exceeded local demand only in 5 states (Azerbaijan, Kazakhstan, Russia, Turkmenistan and Uzbekistan) (see the maps below: source<sup>2</sup>). When at the same time in other 7 states, energy needs were higher than the ability to cover them by certain energy production. If we take a look at correlation between their energy needs and local energy production, we shall see 11 out of 12 CIS member-states are to import one or another kind of energy. Exception here is Turkmenistan.

**Fig. 2: Natural Gas Production in Central Asia (1992-2004)**



**Fig. 1: Oil Production in Central Asia (1992-2004)**



<sup>1</sup> This data is taken from the World Energy Council, the Survey of Energy Resonance's 2002. According to the Ministry of Energy (Russia) estimations, Russian share of the proved oil reserves (and condensate) of all world reserves is 13%. In this case, Russian share of oil reserves (and condensate) in CIS reserves increases till 90%.

<sup>2</sup> [www.eia.doe.gov/emeu/cabs/Centasia/oil.html](http://www.eia.doe.gov/emeu/cabs/Centasia/oil.html) and [www.eia.doe.gov/emeu/cabs/Centasia/Naturalgas.html](http://www.eia.doe.gov/emeu/cabs/Centasia/Naturalgas.html)

In order to increase energy security level in CIS it will be relevant to restore and develop international energy relations (mainly power stations, oil pipelines, gas pipelines), existence of which has been yet since the USSR times. Despite free market relations formation in CIS, the role of a state in energy security sphere on the national level has to be expressed the following way:

- Legislative regulation that will increase energy resources efficient and rational utilization;
  
- Forecasting the strategy of long-term economy and society development in order to provide it with a stable energy supply at any time;
  
- To influence on energy markets development locally and internationally, playing a role of a guarantor for their indiscrimination and openness;
  
- Creating conditions to keep energy security by taking instant decisions that would boost development and realization of certain programs on a governmental level, that would be fully or partly financed from the state's budget, taking measures for energy supply diversification, more rapid development of local energy resources including non-traditional energy resources;
  
- Creating governmental energy reserves

CIS have all chances both in its resource base and energy complex development pace, to reach that necessary level of energy security in the entire CIS and within any of its member-states. Within this framework, it is necessary to develop mutually beneficial economic and technological co-operation in the energy and energy supply spheres.

Collaboration, exchange of knowledge in the field of energy and its supply, openness about present conditions and perspectives of development of the energy sector and the ways of energy security realization in CIS may actually contribute to the energy security. The state has to further play the significant role in energy security maintenance and in transferring economy into the mode of energy economy.

In order to support energy security in CIS alike the International Energy agency currently operating within the Executive committee of CIS, the same type of Interstate energy agency of CIS could be created.<sup>1</sup> This agency could be in charge of energy economy policy in order to ensure national and collective energy security. This agency can carry on various activities in order to involve member-states into energy balances of non-traditional and restored energy sources. It could create a free flow of information concerning energy complexes and energy economy programs development. It could also be in charge of issuing regular informational journals, statistical and forecasted information and analytical magazines.

The role of the oil factor in a Single economic space creation (Russia, Belarus, Kazakhstan, and the Ukraine) can be defined by the intensity of the bilateral and multilateral development in the energy sector between CIS states. This is the priority in the Russian and CIS energy diplomacy. Among urgent matters in this field we can underline national energy interests determination for new sovereign states and collaboration development on the basis of these interests. Besides that, formation of local energy markets and their consolidation plays a crucial role here. While this formation within CIS, the experience and practices in this area conducted by the EU and North-American association of free trade (NAFTA) can be utilized.

The majority of the CIS states have to import from 80 to 100% of energy resources (oil and gas, other) mainly from Russia and partly from Turkmenistan. However, they are not able to pay fully or in time for the supplied to them energy even on the barter basis. To be precise, in early 90-s Russia was major energy supplier in the whole CIS territory (70-75%), but was getting goods in exchange of about 25-30% from the agreed amount of supplied energy volumes.<sup>2</sup>

There is a huge dilemma in this matter, to continue dealing with CIS countries or to further develop relations with the “far abroad” that is more credible. As it is a known fact, the main point for energy exporter is to develop energy production sectors in order to export its goods to world markets and get income necessary for socio-economic development of a state-exporter. For this group of states CIS energy market taking in account its paying ability has less significance before the “far abroad” markets. This issue in many ways seriously complicates energy collaboration development within CIS. For such states as Turkmenistan, Azerbaijan and

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<sup>1</sup> Magazine: World Economy and International Relations. 2003, №5. p.49.

<sup>2</sup> Russian Newspaper: Financial News, Финансовые известия. 2001, 29 January.

partly Kazakhstan, according to the IEA estimations, export of oil and gas to the world markets is in fact the only way to increase one's GDP and overcome economic crisis.<sup>1</sup>

Single Economic Space (SES) creation shows that the majority of CIS members are interested in solution of the energy security problem in the Commonwealth. However, comprehension of this problem and the ways to solve it vary a lot. That is why, it is necessary to pay attention at the concrete mutual agreement of CIS on joint energy security concept development; mutual support of the Eurasian energy agency creation as well as an intention to open dialogue in the field of energy politics and diplomacy between the CIS states within the Energy Charter and the Treaty within the Charter.<sup>2</sup>

The SES success and perspectives for energy collaboration development in the post-Soviet space will by and large depend on the national and collective energy security of these States. In order to solve all these and other problems it is also necessary to develop a legal and institutional base for bilateral and multilateral energy cooperation within CIS in the new geopolitical and economic situation, using world practices in international regulations in the open market economy.

Together with that, perspectives on energy cooperation in CIS depend on the politics of non-regional states. Events of September 11, 2001 have to also be taken in account. They have become a reason for the USA increase interest in oil projects that originate in the territory of CIS. In February 2004, there has been an official signing of the crediting agreement concerning "Basic Export Pipeline" (BEP) financing. This pipeline is more known as Baku-Tbilisi- Jeyhan port on the Mediterranean Sea. Among sponsors are: European Bank of Reconstruction and Development, the World Bank, export-crediting agencies from the USA, the UK, Japan, Germany, Italy, France, multinationals. Apparently, if future about the pipeline route might cause doubts in heads of specialists, there are no doubts or uncertainties among the circle of "players" that are so keen on the oil production in the CIS territory. Their interests are more precise in the Caspian region.

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<sup>1</sup> World Energy Outlook 2000. Paris. p.131

<sup>2</sup> "Энергетическая безопасность Содружества Независимых Государств", Moscow, 13 May 1996, p.211, 214

## **Chapter 3**

### **Strategic Foreign Policy of Russia, China and the USA in the Caspian region. Oil factor.**

#### **3.1 Problems and perspectives for international co-operation in the Caspian region.**

For many centuries the Caspian region has been playing an important role in transport-communication routes from the Mediterranean Sea up to the Pacific Ocean. Transportation network destruction and reorientation of goods flow in the region after the USSR collapse have led to the consolidated effort of the pre-Caspian states to restore the transportation corridor “EAST-WEST” as an analogue of the “Great Silk Road”.

Caspian region is currently busy with an active formation and rebuilt of local and international transportation networks. This process has been activated pretty much due to the huge oil reserves being discovered close to the Caspian Sea and in it. The increased role of transport communication has a close link with the importance of gas and oil transportation to the world markets what may significantly increase goods turnover and traffic. (see the map in Appendix 0)

Development of transport infrastructure in the pre-Caspian states has drawn much attention from the developed states (the West). These states see this infrastructure as a crucial element in their strategy in forming global transportation corridors for goods and energy resources to bypass Russia. These strategies may allow them to push Russia far behind its historical sphere of influence first of all with the help of economic mechanisms.<sup>1</sup>

Discovery of additional gas and oil reserves in Caspian Sea and nearby regions demands additional investments into their development, refinery and transportation. Due to many reasons pre-Caspian states are currently not able to fully develop their natural energy resources, build new pipelines and launch industrial modernization on their own. Hence, the flow of foreign investments appears to be crucial. TNC-s involvement into co-operative production process on the basis of stable guaranteed legislation will help these donor-states develop their economies through international and transnational collaboration.

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<sup>1</sup> Heslin Sheila The New Pipeline Politics //The New York Times, November 10, 2000.

Today such countries as the USA, the EU, Turkey, Iran, Japan, China and other are highly interested in creation of energy transportation corridors in the pre- Caspian region and aim to control them (mainly through commercial participation, giving credits, political pressure).

Since the beginning of 1990-s the USA has actively begun its multiple and broad politics in the Caspian region. This way they have been molding the model of international relations of that period that has come after the end of the Cold War.<sup>1</sup> Stable access to the energy reserves has become the priority in the foreign policy of the USA. "Energy politics takes one of the central places in the system of international affairs of the USA" that brings complications in Central Asia and Caucasus in relation to Russia.<sup>2</sup>

Such an interest in the Caspian region from the USA for the last years can be explained first of all by the regions ability to become an alternative to the Middle East in oil supplies. Total estimations of the oil reserves in the Caspian region according to some data are about 200 mlrd. barrels<sup>3</sup> to compare with 259 in Saudi Arabia, 112 in Iraq, 18,36 in Western Europe. To be present in the region and to have control over its resources is crucial for the USA. First of all, the significance of this region due to its oil and gas reserves made the USA begin formation of a new geopolitical situation in Central Asia advantageous for them.

If 1990-s the USA spent for positioning itself in the region, then the events at the end of 2001- the beginning of 2002 no doubt have defined the tendencies for the following decades.<sup>4</sup> Strategies and priorities towards the Caspian region that early seemed to be only in theory were newly defined in the USA foreign policy.

Such interest in the Caspian from the USA, the EU and Japan is bound to their energy strategy. This strategy aims in turn to diversify external energy resources supply as well as to create the best external political conditions for a free access to the previously unreachable for the West resource base of the Caspian. Moreover, this position (especially in case of the USA) is mainly influenced by the geopolitical location of the region.

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<sup>1</sup> Писарев В.Д. Политика США в Каспийском регионе // Европа и Россия: проблемы южного направления. Средиземноморье-Черноморье-Каспий. М.,1999.

<sup>2</sup> Жизнин С.З. Энергетическая дипломатия США // США и Канада. № 2, 2000

<sup>3</sup> Caspian Sea Region (oil, gas, regional conflicts, tables), August, 2003.

<http://www.eia.doe.gov/emeu/cabs/caspian.html>

<sup>4</sup> Жильцов С.С., Зонн И.С., Ушков АМ. Геополитика Каспийского региона. М., 2003

In the same context we may highlight Turkey whose Caspian politics is by and large influenced by energy and geopolitical factors. Turkey is interested in having an unlimited access for its companies to the rich resource base of the Caspian as well as having main pipelines for energy transportation to world markets through its territory. This way Turkey can get geopolitical and economic dividends taking in account its foreign policy to increase its influence in Central Asia and Caucasus.

Almost all international companies are important players in the pre-Caspian oil game. They aim up to various degrees to strengthen their rights for participation in oil reserves development yet before relations between Caspian states concerning the status and the usage of the Caspian Sea have been regulated. Interests of the Western TNCs are mainly to obtain a long-term legally approved access to the oil reserves. This access would improve their current situation in resource supply and will attract additional investments. It is necessary to underline the fact that if European companies are keen on development and Caspian oil supply, then American corporations are mostly interested in the preservation of Caspian reserves in order to develop them in a farther perspective.<sup>1</sup>

Apparently, today's the USA, Western Europe<sup>2</sup>, China and Japan interest in the Caspian energy resources can be explained by they wish to decrease their dependence on OPEC in future.<sup>3</sup> Russia realizes this fact and is actively working on creation oil and gas cartel with some of the Caspian states that in future might become a serious competitor to OPEC.

### **3.2 New players in the “Big Game” for Oil.**

#### *Energy Policy of China*

Apparently, the fight for the exhausting energy resources dominates geopolitics of the 21<sup>st</sup> century. The growth of the Middle Eastern and nearby oil supply hardly catches up with the growing demand that in turn leads to the rivalry for energy resources. It is a competitive battle for oil between the USA, Russia, Turkey and China in the Caspian region and Central Asia.

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<sup>1</sup> Нефть Каспия - проблема политики и экономики // Содружество (addition to the Independent Newspaper «Независимой газете»). 1998. № 4.

<sup>2</sup> Oil and gas of the Caspian may satisfy energy demands of the entire Europe. This conclusion has been made by the participants of the spring session of the parliament assembly of the European Council, <http://www.wep.ru/news>

<sup>3</sup> Сатпаев Д. Каспий цвета хаки // New generation. Новое- поколение. 30.08.2002.<http://www.np.kz/2002/35/mirl.html>

Tension between China and Japan is also increasing because of the Eastern Siberian oil. Rivalry for the access to African energy reserves (Sudan, Nigeria, Cameroon, and Chad) between the USA and China is also growing (see the map below, page 50). The hottest point in the battle for oil has been reached in the Persian Gulf zone, where after the US invasion into Iraq. It has got unlimited control over Iraqi natural resources. This fact left even the USA allies unsatisfied. It is important to mention here that after the USA among all other rivalry states in above mentioned oil regions, China stands out second in the race for oil.<sup>1</sup>

Understanding energy security must be important for any state if this state aims to protect its sovereignty and keep a high economic standard of living for its citizens. This understanding is almost crucial for such superpowers as the USA and China. They can not afford being dependent on one single or even several energy sources. Hence the USA obtains oil from about 60 countries. China is also coming to the same number of suppliers. It is expected in 2020 that the USA and China will import two thirds of their oil demands. It means that the rivalry between them will involve more and more regions in the globe. And if in this rivalry these superpowers need to take in account each others interest in order not to let the apocalyptic impact, then interests of smaller and middle states in this battle are practically not taken into consideration. This fact has a tendency to further polarization between rich and poor states, leads to growing tension in the international arena, and generates terrorism. Therefore, we assume that along with the decrease of oil and gas reserves tension in this rivalry for energy between the USA and China as well as other big states will be gradually increasing(see map in the page 50). This fact will in turn lead to the appearance of new outsiders.

In the Chinese energy security and resource supply policy two important goals are stated– access to the energy reserves in various regions of the globe and diversification of import according to both sources and pipeline routes. The second statement concerns growing tension between oil supplies through Malacca gulf. In both respects Russia is of a big importance and interest for China.

Nevertheless, neither Chinese companies have tried to penetrate Russian energy resources market nor any version of eastern oil pipeline in the Chinese direction has been developed so far.

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<sup>1</sup> Алексей Волович. Как напоить жаждущего «дракона»? Борьба между США и Китаем за нефть обостряется // Дипломатический мир. – 13-20 October 2004. - № 19 (30). <http://www.dipmir.com.ua/rub6ar2.html>



Here it is possible to use the Chinese huge interest in the oil pipeline from Russia in the long term price dialogue on exporting gas pipeline project, moving China towards some compromise.

Chinese Energy policy is short and precise: search of any energy sources either inside or outside the country.

This search has actually started yet from 1990s. Then only one out of four Chinese companies – CNPC was involved. Now this company takes part in 30 foreign projects in various regions of the globe.

In a new millennium the process has got up to a new dimension. Since 2001 CNOOC, Sinopec and Sinochem have joint CNPC. Since then Chinese oil companies have got to rapidly spread all over the world.<sup>1</sup>

Every year their international activity is progressively growing. For only 2004-2005 Chinese foreign deals have increased at least over ten new projects (including the expansion of the present ones). Their number has reached fifty.

In 2004 the sum of oil production according to the international projects has almost doubled in compare with the previous year, being estimated of 30 mln. tones including 16 mln. of share oil. In 2005 the volume of the shared oil on projects has increased till 20 mln. tones, and by 2020 should reach 70 mln. tone a year. By this time just CNPC alone plans to invest into foreign projects about 18 mlrd. of dollars.<sup>2</sup>

Along the main directive in the Chinese foreign policy three regions are selected:

1. Middle East and Northern Africa
2. South America
3. Russia and Central Asia

#### *Chinese interests in the Middle East*

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<sup>1</sup> Виноградова О. Китайские головоломки // «Нефтегазовая Вертикаль». - 2005. - №7.

<sup>2</sup> Виноградова О. Китайские головоломки // «Нефтегазовая Вертикаль». - 2005. - №7.

For the last decade of the 20<sup>th</sup> century China's policy in the Middle East as well as all over the world has undergone significant transformation. As a result of Dan Syaopin and his followers (Zyan Zemin and Hu Jintao) reforms the economy of China has been rapidly developing. In 2003 China's GDP for example has grown 9,1% and accounted 6,4 trln. of us dollars. According to this basic economic figure China has come to the second place after the USA (10,9 trln. of dollars). After China goes Japan with its 3,5 trln. of dollars GDP. Russia that yet in early 1950s supported Chinese economy, today is on the 11<sup>th</sup> place in the world's GDP table – 1,2 trln. dollars.<sup>1</sup>

Another and most visible economic growth figure is volume of energy consumption. Already by 2003 China has become second after the USA in oil consumption in the world, moving Japan to the third place. Level of oil consumption in China is growing about 7,5% a year what makes it 7 times more than in the USA. According to the International Energy Agency forecast, by the year 2030 China and the USA will import oil in equal volumes. One of the major oil consuming sectors in China is private autos, the amount of which by 2010 will increase 90 times in comparison with 1990. Taking in account the fact that the amount of automobiles in China is growing 19% annually, and then by 2030 this number will be more than in the USA.<sup>2</sup>

Till 1993 China mainly exploited its own internal oil reserves. According to the Chinese Ministry of land resources, discovered oil reserves in China in 2003 were 6,5 mlrd. tones. In 2004 China has consumed 300 mln. tones of oil among which 120 mln. tones where imported. China has also significant gas reserves and aims to increase its internal development and production till 100 mlrd. m<sup>3</sup> in coming years. Besides that, China will import about 60 mlrd. m<sup>3</sup> of gas annually. China's dependence on external energy sources is constantly growing. In 2003 oil import in China has grown 31%, and just for the first quarter of 2004 – over 69% to compare with the same period of the previous year. According to the IEA data, China will import about 70% of raw oil and 50% of gas by 2020. Chinese share in the worlds oil demand in 2003 has increased till 35%, and its oil needs by 2010 might be about 500 mln. tones.

64% of all known world oil reserves are focused in the Middle East. According to the IEA research data, the oil production volumes in the Persian Gulf might reach 30,7 mln. barrels a day

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<sup>1</sup> Алексей Волович. Как напоить жаждущего «дракона»? Борьба между США и Китаем за нефть обостряется // Дипломатический мир. – 13-20 October 2004. - № 19 (30). <http://www.dipmir.com.ua/rub6ar2.html>

<sup>2</sup> Алексей Волович. Как напоить жаждущего «дракона»? Борьба между США и Китаем за нефть обостряется // Дипломатический мир. – 13-20 October 2004. - № 19 (30). <http://www.dipmir.com.ua/rub6ar2.html>

in 2010 and 42,9 mln. barrels a day by 2020 to compare with 21,7 mln. tones in 2000. This might lead to the increased Persian Gulf states' share (till 35%) in the world oil production in 2020.

Three major Chinese governmental companies are currently operating in the Persian Gulf. They are CNPC, CNOOC and PETROCHINA. Trying to get its niche in the Middle Eastern market, China faced the fact that this market is almost completely occupied by the USA, Japan and European states. In this situation China had to discover some of those “less risky” markets that were still free and of no interest from anybody else.

Today the Middle Eastern oil share imported by China is about 60%. It is expected that by 2015 it will increase up to 70%. In 2002 China imported oil from only 3 Middle Eastern states: Saudi Arabia (11,53 mln.t), Iran (10,73 mln.t) and Oman (8,31 mln.t), about 43,3% out of all Chinese oil import.<sup>1</sup> At present Chinese oil companies operate in almost all Middle Eastern markets where oil is found. However, let's speak in this analytical research just about those areas where Chino-American interests clash their most.

The most significant and turning point for China was its penetration of Saudi Arabian oil market that traditionally was under American superintendence. At the beginning of 1998 China signed up an agreement with Saudi Arabia for 1,5 mlrd. dollars joint Chinese-Saudi oil refinery plant construction and Saudi oil supplies to China of 10 mln. tones annually for the next 50 years. Probably, the Saudi will try to activate economic relations and military, technical collaboration with China in order to weaken their dependence on the USA and to get some political support from China since American pressure on R-Riyadh is growing.

In 1990s China occupied one of the first places in Iraqi oil consumption within the UN program “Oil in exchange for goods”. By March 2003 China became the third consumer of the Iraqi oil that was not positively taken by the USA. In June 1997 CNPC signed a contract on Al-Ahdab oil reserve development aiming to get from it 90 thousands barrels of oil a day. However, today these contracts having been signed up yet with Saddam Hussein remain frozen. Currently Beijing is doing everything possible to maintain its positions in Iraq after the situation in the country is stabilized.

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<sup>1</sup> Алексей Волович. Как напоить жаждущего «дракона»? Борьба между США и Китаем за нефть обостряется // Дипломатический мир. – 13-20 October 2004. - № 19 (30). <http://www.dipmir.com.ua/rub6ar2.html>

After the September 11<sup>th</sup> 2001 events American administration's attitude towards the Saudi Arabian regime has instantly changed to worse, since the USA has got to interact with it as with the main source of Osama Ben Laden and his followers. A part of Saudi oil magnates are blamed by Washington to be a source of financing for hidden anti-American terror activities. Time to time, it is possible to hear from Washington and especially Pentagon such appeals as to capture Saudi oil reserves in order to "stop use of oil dollars for terrorism sponsoring". In this situation, according to Washington strategists, Iraq is called to become an alternative source of energy resources for the USA in order to "untie the USA hands" in regard to Saudi Arabia and put to an end its leadership in the world oil markets. Iraqi oil may provide the USA with energy resources for a longer time, for fewer prices and totally free them from some political obligations before Saudi Arabia and other Arabic states of the Persian Gulf.

Till recent time the main obstacle on the way to China-Kuwait co-operation development in energy sector was the lack of law in Kuwait that would let foreign companies launch oil production financing. Nevertheless, representatives of Chinese company Sinopec have recently achieved some agreement with Kuwait on participation in financing North Kuwait oil fields development. During prime minister of Kuwait Sabaha al Ahmed Al-Dzhaber as-Sabaha's visit to China an agreement on collaboration in gas and oil sphere was signed up.

In 1990s Chinese-Iranian economic collaboration was intensively developing. An agreement on economic and trade collaboration signed up in 1995 for 2 mlrd. US dollars was going to bring China 60 thousands barrels of oil a day, joint oil refinery plant construction in China and power and cement plants construction in Iran. In January 2000 Sinopec signed up a contract with the Iranian state oil corporation NIOC aiming to develop oil fields in Zavan and Kashan regions. In Iran China faces fierce competition from Japan.

One of conditions for Chinese promotion to the Iranian market was Chinese arm supplies to Teheran. During Iran-Iraqi war (1980-1988) China was one of the main sources of arms for Iran. According to some data, China supports Iran to produce ballistic rockets. This issue constantly bothers Israel and the USA who blame Teheran in breaking its obligations according to the Missile Technology Control Regime (MTCR). During the visit of Chinese president Zyan Zemin to the USA in 1997, he promised to stop ballistic rocket supplies to Iran.

In last years Sudan occupies the second place in Chinese international affairs after the Persian Gulf due to its large scale of co-operation in the energy sector. By 2005 CNPC planed to increase oil production in Sudan 3 times that would make about 15 mln. tones. At the same time Sudan is sort of a starting point for Chinese oil companies operations in nearby African states. While the USA economic sanctions in 1997 against Khartoum, Chinese oil companies have got almost full freedom for their activities in Sudan. However, after the recent confrontation in the western Sudan, province Daruf, the position of Chinese companies has been complicated. Some analysts believe that Western developed states with the USA at the head aim to dramatize the situation in Daruf on purpose and threaten Khartoum with UN sanctions, in order to move China out of Sudan.

In April 2002 an agreement between China and Lebanon was signed. According to this agreement Chinese oil companies got a free access to the Lebanese oil market. In Lebanon Chinese companies have overridden the American, which have just got possibility to restore their activities in Lebanon after the 23 years pause, due to the USA and UN sanctions against Tripoli.

The prolonged Iraqi crisis and generally stressed situation in the Middle East make China to constantly look for energy sources alternatives. Taking in account the geographic location and long traditions of co-operation, Russian and Kazakh energy markets seem to be the most attractive for China after the Middle Eastern one.

#### *Chinese Oil Interests in Central Asia*

In recent years some states have become very active in Central Asia. It can be explained by the changing geopolitical situation in the region. At present, Russia and China claim leading positions and roles in this region.

However, if Russian increased role in the region is mainly connected with the change in the military and political situation, promotion of its interests and strengthening of its positions as well as intentions to limit Americans, then the activated actions from the CPR in the “Big Game” are directly linked with the battle for energy resources in Central Asia. Already now it is getting clear that “the Game” for energy resources in the pre-Caspian region is impossible to imagine without China.

Nowadays China is getting leading positions in the process of oil and gas reserves penetration in pre-Caspian region. Beijing is trying to act in all most beneficial directions as well as in the Central Asian.

Unbelievable Chinese economic growth according to many parameters is linked to its growing demand for energy resources especially oil. This fact is proved also by an expert conclusion made by the World Bank, according to which Chinese Peoples Republic as well as intensively developing Asian-Pacific region, in the XXI century will impact the growing demand for oil and gas. According to some forecasts, only oil import to the Asia-Pacific states in 2010 will increase 1,5 mlrd. tones and to China – till 200 mln. tones.<sup>1</sup>

Secondly it is necessary to note that current oil production in China is suffering decline. Apparently, Beijing is facing extreme lack of internal oil reserves. Moreover China's old oil reserves are almost totally exhausted. It is necessary to mention here Beijing's plans concerning oil reserves in the Tarim basin in the Sindzyan province to be name by China its new Kuwait. Beijing forecasted that oil reserves in this particular place exceed 300 mln. tones. However, when in 1993 the 5 reserve places were open for the Western companies; their reserves were limited and significantly deviated from the expected figures, making 30 mln. tones. Similar situation happened with high expectations from potential reserves in the Southern-Chinese sea shelf. As for the Tarim oil production, it is good to mention that in case if there is oil in it, its pumping is limited by soil sands and high transportation costs. This fact in turn hardly makes this oil reserves highly profitable.

Thirdly, Beijing is eager to keep its local oil reserves for better times. It applies to the Sindzyan oil province as well, where Karamay oil reserves were developed many years ago. Trying to keep its reserves for the worst time, the Chinese are not in a hurry to develop them in this region. They clearly realize that it is more beneficial to use resources from neighboring states than their own.

In fourth, national interests are directed to stabilization of the situation in Central Asia as well as are focused on a dominating role in the region.

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<sup>1</sup> Сидоров О. Нефтяные интересы Китая в Центральной Азии // Gazeta.kz. - 16 October 2003.

In addition, China realizes that on the other side of its long border there is a slowly going peace operation in Afghanistan, and a politically fragile situation in Tajikistan. Situation in these unstable states are in turn a good food for Islamic fundamentalism, arms trade, drugs contraband. Beijing realizes that all negative events happening behind Chinese border, tomorrow may come over its border, and then it will be more difficult to fight against them then now.

The second question that rises many opportunities – is goals that China aims at, trying to use various methods and activities in order to achieve them.

Beijing supplies itself with oil, from the Russian and Central Asian oil pipelines. And it is just one more incentive to continue its economic growth.

Beijing by trying to keep its oil reserves leads a wise policy in regard to its industrial future. This policy may guarantee its further growth in the economic sphere and China's leading position in the region.

By creating co-operative oil production and refinery businesses Beijing provides Chinese specialists with jobs. However, it is important to note that by doing so the trained staff is not only provided with jobs in the territory of China but is also sent to work in joint companies located in Central Asia. This way, this population does not get only employment but a chance to settle down in the territories of other states of the region. As for the Sindzyan - Uygur autonomic region (SUAR), it is obvious that specialists' attraction to this region helps to reduce tension inside China, and in this particular case, inside SUAR. This point is very important for Beijing internal policy directed to keep the inner stabilization.

The fourth point is that by its actions Beijing is eager to positively position itself before Central Asian states on one hand, and take a dominant position in the region, on the other hand. Already by now China has signed up border treaties with all neighboring states of Central Asia, strengthened trade ties with them, and demanded from them in return not to support Uygur nationalists in their attempts to make Sindzyan province a sovereign state.

It is necessary to understand that such mutually beneficial collaboration between Beijing and other subjects of the region slowly turns into beneficial promotion of one's state national interests towards other republics. And if we take a look at the treaties on mutual collaboration

and realization of joint projects they have multilevel definition. We also can not neglect the fact that this realization of joint ventures with some states of the region and taking in account their nearby location, allows China to build direct oil pipelines.

Finally, Beijing has been for a long time facing tension concerning the growing interest of Washington in Central Asia that is expressed in long term appearance of American military bases in the region. Taking into account either that fact that relations between the USA and China remain tensioned, Beijing's aim to spread its influence all over the region becomes clear. Moreover, distance from Bishkek to Chinese border is only 250 km that in case of the USA military base existence in Kyrgyzstan plays on China's nerves.

What actions should be expected from Chinese government in the near future?

It is obvious that Beijing has developed and launched the realization of a long-term program to get access to foreign gas and oil reserves located in Central Asia and not only there.

So that according to an expert data, China since 1993 has signed up at least over 15 huge oil and gas agreements in such countries as Venezuela, Iraq, Iran, India, Indonesia, Kazakhstan, Turkmenistan, Azerbaijan, Russia. Moreover, the total sum of concluded or developing agreements estimated 20,7 mlrd. dollars.<sup>1</sup>

It is absolutely obvious that China will compete with Russia, the USA, Iran and some other countries in the battle for energy resources in the Central Asian region. Already now we can notice increased positions of Beijing in Shanghai's Co-operation organization, as well as strengthening bilateral relations with each of the five republics of Central Asia. China is the fourth trade partner for Russia. For example, in 2003 volume of bilateral goods turnover estimated 15,76 mlrd. dollars.

In the end of March 2003, in some days after the USA troops entered Iraq, within presidential visit of Hu Jintao in Moscow the priority of further bilateral co-operation in the energy sector development was proclaimed. Soon after this visit CNCP and UKOS signed up a long-term agreement on construction of a pipeline from Angarsk till Datsin in China. Within this agreement, Russia has to be supplying China with 700 mln. tones of oil during the next 25 years.

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<sup>1</sup> Сидоров О. Нефтяные интересы Китая в Центральной Азии // Gazeta.kz. - 16 October 2003.



The oil pipeline construction was estimated of 2,5 mlrd. dollars, and its profit for Russia for the next 25 years would input 150 mlrd. dollars, of which 60 to the state's budget. Although, YUKOS problems and Hadakovskiy's arrest slowed down this project realization.<sup>1</sup>

It seems that in recent time, under the influence of YUKOS's competitors ("Transneft" and "Rosneft"), there has been made a final choice to go for an alternative oil pipeline project and build it from the Eastern Siberia till Nahodka port in the Pacific ocean. This decision was also supported by Japan who offered to invest 5 mlrd. dollars for Eastern Siberia oil reserves development and 2 mlrd. dollars for Russian "social projects".

Russian Eastern Siberian oil pipeline project caused fierce competition between China and Japan. For both countries oil from Russia, the second in the world country of mineral and energy resources production, is a mean of energy diversification and additional energy source. This fact has caused extreme geopolitical rivalry.

In recent years China is keen on getting a second position in the world on oil imports and moving Japan away from this place. Mainly it happens due to the growing oil consumption in China and serious deficit of oil in the world.

Japan in turn is tensed by its low level of energy security, especially in the case when its relations with China are getting worse daily, and its relations with Russia are not improving.

Rivalry for Russian oil between China and Japan does not have only economic implications. Usual economic factors like price, duration, capacity that are at the base of normal competition, do not work in this case. Geopolitical factor is much more crucial here. Hence, pure economic categories stay second.

"Japanese way" (Angarsk-Nahodka) will increase costs on the oil pipeline construction somewhat twice. Its length will be 3700 km. However, this way is significant for Japan for two reasons. First of all, it will decrease 10-15 % its dependence on unstable Middle Eastern region. Secondly, it will make its collaboration with Russia closer and will help strengthen its economic

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<sup>1</sup> Алексей Волович. Как напоить жаждущего «дракона»? Борьба между США и Китаем за нефть обостряется //Дипломатический мир. – 13-20 October 2004. - № 19 (30). <http://www.dipmir.com.ua/rub6ar2.html>

and political presence in Russia, with what China succeeds more in compare with Japan.<sup>1</sup> However, the most difficult and unsolved part in Japanese Russian relations remain Cyril Islands dispute.

The “Chinese way” (from Angarsk till Chinese region in Datzin) is 1300 km shorter, meaning cheaper, however it might lead to expansion of the Chinese economic sphere of influence in the direction to the Russian Far East. This circumstance makes Russia cautious, especially taking in account its weak infrastructure and demographic situation in the region.

Main obstacle for the Chinese variant is Russian tendency to prolong decision making and instability of moods that within global energy market gets political explanation. However this tactic might be critical for Russia and its economy. The most interesting factor is dynamics of current geopolitical events. General situation in Eurasia and the fact that the USA can be already considered as an acting power in Central Asia may play a crucial and positive role for Russian-Chinese partnership.<sup>2</sup> However, too close strategic interests might also play against China, in case of Russia trying to get the maximum, increase its energy influence and at the same time make China in exchange of resistance to the USA existence, sacrifice its energy agreement.<sup>3</sup>

It might be possible that Japanese victory in the Russian market might appear fragile, since it will definitely worsen Tokyo-Beijing relations on one hand, and will “spoil” relations between Moscow and Beijing on the other. In this situation Russia might attempt to attract China to the participation in this project just to balance ambitions of both Tokyo and Beijing. Russian side does not exclude opportunity to build a branch pipeline Taishet-Nahodka for China, having connected the perspective with the possibility to attract Chinese capital for this construction.



<sup>1</sup>Ричард Киракосян. Китай и Япония в борьбе за российскую нефть. – 3.12.2005. [www.168.am/ru/articles/649](http://www.168.am/ru/articles/649)

<sup>2</sup>Ричард Киракосян. Китай и Япония в борьбе за российскую нефть. – 3.12.2005. [www.168.am/ru/articles/649](http://www.168.am/ru/articles/649)

<sup>3</sup> See reference 1 and 2

Not to lose Chinese market, Russian side has offered to temporary supply oil to China through rail road. While his visit to China at the end of August 2004, Russian Minister of Industry and Energy V. Hristenko promised to increase Russian oil supplies to China along rail road till 10 or more mln. tones a year. However, it does not seem as a relief for the Chinese, since the costs on rail road transportation are much higher than those via pipeline.

UKOS announced that oil supplies to CNCP would be sopped, having continued so far supplies to Sinopec. Some experts believe that trying to partly stop oil supplies to China UKOS is trying to press Kremlin in order to decrease fine sanctions on unpaid taxes. Chinese worries concerning Russian oil supplies were the main topic of negotiations during the visit of the chief of State Council of China Ven Jyabao to Moscow at the end of September 2004. M. Fradkov assured his Chinese guest that in 2005 Russia planned to supply 10 mln. tones of oil by rail road, and in 2006 – not less than 15 mln. tones. At the same time the Minister of Industry and Energy V. Hristenko said that Russian government can not guarantee China stability of oil supplies from Russian oil companies.

According to experts, the most serious current problem existing in Russian-Chinese relations is the problem with Angarsk-Datzin.

In 1990s, Kazakhstan becomes a major object for China in its energy politics in Central Asia. In June 1997 the Chinese national oil corporation CNPC won a tender on two the biggest Kazakh oil fields development and a 4800 km pipeline construction from Kazakhstan to China. (CNPC has been operating in Kazakhstan since 1997, and for this time has invested in the country about 10 mlrd. dollars. The company has 74,88% of shares in “CNPC-Aktobemunaigas” and 50 % in SRP in Northern Buzachi reserves development).

In Azerbaijan within SRP contracts CNPC and Sinopec operate, in Turkmenistan only CNPC is present.

After the Chinese have realized that Russia on purpose postpones decision making on “Angarsk-Datzin” pipeline construction, using a formal reason of underdevelopment of environmental issues in it, the Chinese government has decided to act more energetically in the Kazakh direction. The Chinese president’s visit to Astana at the beginning of 2003 has given an impact to Chinese broad activities in the Kazakhstan energy market.

In the middle of October 2003 the Kazakh company “Kazmungaigaz” and the Chinese company CNPC have decided to begin “Atyrau – Alashankou” oil pipeline construction works in 2004. This pipeline supposed to transfer 20 mln. tones a year, and was expected to go over 50 mln. tones a year in future. It is supposed that this pipeline will operate due to the CNPC oil produced in the west of Kzakhstan (about 8 mln. tones a year), as well as due to oil fields in the south of the country, being developed by Russian “Lookoil” and Canadian “PetroKazakhstan” (about 10-12 mln. tones a year). According to the estimations, at the first stage this volume of transferred oil will ensure reliability of the pipeline.

One of the advantages of China in its international affairs is a lack of political ambition in compare with the USA, Russia, Turkey and other states. It seems that Kazakhstan develops its relations with China in order to also balance its relations with Moscow that politically influences on Astana, not always suggests economically beneficial for it conditions in the oil sphere and not always fulfills already made agreements.

Emergence of the competitive battle around Siberian oil in the triangle Russia-Japan-China, as well as the rivalry for the Kazakh and Caspian oil between the USA, Russia, Turkey and European states, give Beijing enough reasons to assume that Russian and Kazakh oil supplies to China will be on a large scale and long-term, and will become a reliable alternative to the Middle Eastern oil. It might be so that Russian and Kazakh oil along with the Indonesian, Australian and African will become major elements in diversification of energy sources within the framework of Chinese energy security. Along with that, Russian and Kazakh energy market might become the most important after the Middle Eastern.

### ***Indian Interests in the Caspian***

India has also got some interest in the Caspian region. The Caspian Sea is the third oil basin known in the world. In the fourth quarter of 2004 a new oil pipeline Baku – Tbilisi – Ceyhan (BTD) was launched. This pipeline seriously influences on the geography of oil routes stretching along the CIS territory. This project mainly serves interests of the USA and other NATO states, but does not give anything to Moscow. Though alternative routes for example such as the corridor “North-South” are more than beneficial for Europe, Russia and India.

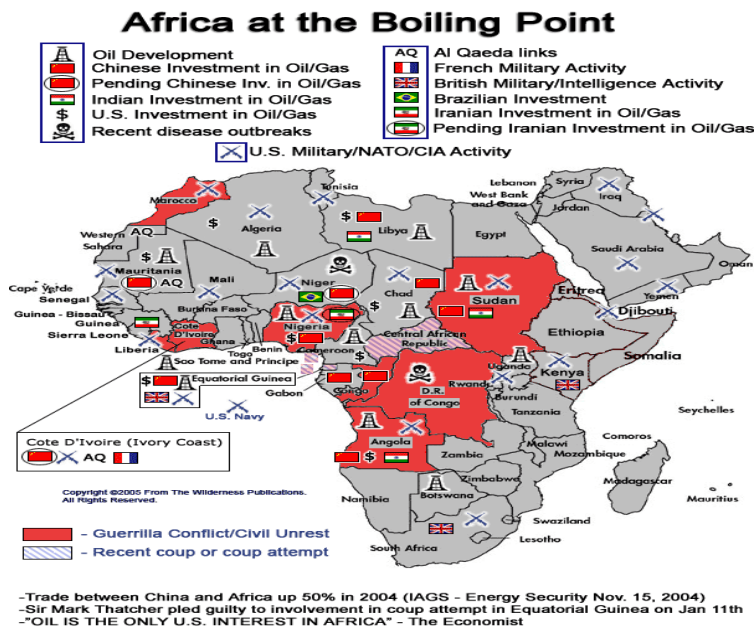
The discovery of this corridor along the route Mumbai (India) – Bender-Abbas ports – Bender-Amirabad (Iran) – Anzeli (Iran) – the Caspian Sea – Olya port (Astrakhan, Russia) – St. Petersburg is a beneficial alternative to the having existed transportation routes before. The new route according to the specialists' opinion will allow decreasing duration of transportation 10-12 days in comparison with the traditional sea route from Asia to Europe, through the Mediterranean and Suet Channel that take 35 days. This route will in turn allow lower transportation costs 20 %. As it is expected at the first stage of the project realization along the corridor 15-20 mln. tones of goods will by pass. The trade turnover will make 10 mlrd. dollars.

One of the major objects of the infrastructure of the Russian part of the corridor “North-South” is a new being constructed sea trade port Olya. According to the experts' estimation, transported through the port volumes of goods might make 4 mln. tones a year by 2005, and by 2010 should increase till 8 mln. tones a year. Although some experts believe that this project has its shortcomings (for instance, a lack of consistent oil pipelines), not only Russia, India and Iran but also other Caspian players – Kazakhstan and Turkmenistan are ready to invest into this corridor. Within this framework, Delhi has already expressed its readiness to strengthen Kazakhstan Navy. During the last visit to Astana, Indian Minister of National Security Jorge Fernandez agreed with the Kazakh's side that India will assist Kazakh Navy with English language courses, as well as will train specialists for the Caspian float and divisions being on service in the mountain area. Some other issues concerning organization of joint arms production have been discussed. There is a certain interest from both sides in organization of joint arms production on the basis of “Metallist” plant in Uralsk (Western Kazakhstan oblast).

### **3.3 Oil factor in relations between the USA and China**

In his recent annual speech to the Nation on “the Current situation in the country” president J. Bush said: “America has fallen under oil dependency”. He announced a research program in the energy field that will allow to decrease 75% of the imported to America Middle Eastern oil during the next decades. Nevertheless, even if this program succeeds, it will not be able to significantly improve American energy security. Persian Gulf oil is only one fifth of the whole imported oil to the USA. Americans are not the only ones worried about their energy security. China and India, are two world biggest states, realize that high pace of their economic development as well depend on foreign oil. Despite the fact that these both states consume a bit less than a half of the oil volume consumed in the USA, their consumption is rapidly growing

every day.



Source<sup>1</sup>

Here comes a question whether there will be enough oil for all in case of both developed and developing states consuming the same amount of oil per capita?

China and India look for new sources all over the world, making financially and politically expensive deals, trying to reserve for themselves oil from new oil producing states. For example, when western states recommended their oil companies to abstain from co-operation with Sudan government because of its inadequate reaction towards the genocide in Darfur, here came China into picture buying its oil.

Some oil experts ensure that the world's oil production will reach its peak in about 10 years. Other disagree with them by saying that innovations and modernized technologies for oil excavation from the known oil fields make this forecasts too panicking. Due to the lack of accurate statistical data on oil reserves in such states as Saudi Arabia and other oil states, this dispute can not be settled. Nevertheless, most of the experts believe that in the near future oil will not be exhausted in the world even if taking in account growing demand from China and India. Over a trillion barrels of oil reserves are proved to exist and additional might be discovered.

<sup>1</sup> [http://www.fromthewilderness.com/images/maps/Africa\\_big.gif](http://www.fromthewilderness.com/images/maps/Africa_big.gif)

Behind these arguments on oil reserves and time until their exhaustion main security issues are neglected. The core of the problem is not in the quantity of oil, but in the location of oil fields. Two thirds of the confirmed oil reserves are located in the territory of the Persian Gulf – one of the most unstable region in the world.

Oil supplies from there will remain yet for a long time influenced by political problems and hardly impacted by the common shortage of oil. This fact even more pushes China and India to ensure themselves with oil supplies from the states other than Persian Gulf. In fact the same reason made Bush introduce the task to decrease oil import from Persian Gulf region 75% during the next decades.

From the first sight, Bush's task seems to be simple. Daily the USA consume about 21 mln. barrels of oil and imports 2,5 mln. barrels from the Persian Gulf. Yet before new technologies allow producing this volume of energy, the USA could switch to import from Nigeria, Venezuela and other states. And even if these states keep stability, it will not ensure America's energy security. It is not important from where oil comes to a state, but its total volume of import matters.

Assume that Persian Gulf will face crisis due to Iran's attempts to get nuclear weapons. Iran has threatened to stop oil export if the UN council introduces sanctions against it for ignoring its obligations in the field of nuclear research. Many experts forecast that this development of events will increase oil prices - including prices for oil from Venezuela, Nigeria and other oil consumed by the USA, China and India – till over 100 dollars for barrel. Instant growth of oil prices will negatively affect economies of all countries that import oil, not matter from which source.

The world society has already gone through all of this after the Arab-Israeli war in 1973. Arab oil exporter-states proclaimed embargo on oil supplies to the USA and the Netherlands since the USA supported Israel. It happened so that oil meant for the USA and the Netherlands, was redirected to other states, for example to Japan and this oil meant for other states could reach the Sates and the Netherlands. Oil is a one type product and is sold by the same price. When everything was settled down, it came out that all American, Holland and other importers suffered this shortage equally having paid the same damaging high price for their economies.

It means that China and India are misled by the assumption that their preferred deals on Sudan and Iran oil would ensure their energy security. If any problem occurs, all China and India and the USA equally will get same prices that will negatively affect their economies. Meanwhile, the mercantile mistaken assumption of China in regards to the markets leads to the fact that it overpays for something that it mistakes for its energy security.

Bush does not oversight this issue less. Even if America decreases import from the Middle East, America will not obtain energy security until it lowers its thirst for oil. In the past the growth of prices help to decrease oil consumption in the USA. Nowadays the USA uses twice as less oil for 1 dollar of the produced goods in compare with the price jumps in 1970s. However, more than a half of the oil volume used by Americans goes for cars and trucks. The USA will not be able to solve its energy problem until it learns to economy its energy consumption, using as one of the options a combination of technologic solutions, taxes on petrol and legal regulation.

Oil was not the reason for the Iraqi war in its simple interpretation that says that Americans desired to control more Iraqi oil. The world's dependence on oil from the Persian Gulf means that all countries are interested in keeping stability in this region at the same time increasing energy effectiveness and variety of energy sources.

View points of the majority of American analytics for the future of relations between China and the USA do not have apocalyptic forecast, though still some "pessimists", believe that it is difficult for super states to coexist. "Optimists" though believe that a tremendous Chinese market is vital for the American economy so that the USA is interested in Chinese economy to develop in a stable mode, providing more new opportunities for potential American investments.

In many research on Chinese-American relations it is noticed that currently there are no objective reasons for a conflict for the Middle Eastern energy resources between the USA and China.<sup>1</sup> If the Chinese oil import from the Middle East estimates 60%, then the USA import from this region makes just 25% of its oil needs. Other 75% come from the import from other states and local oil production. Moreover, it is expected that the USA dependence on the Middle Eastern oil will be gradually decreasing due to the increased consumption of the Caspian,

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<sup>1</sup> Алексей Волович. Как напоить жаждущего «дракона»? Борьба между США и Китаем за нефть обостряется // Дипломатический мир. – 13-20 октября 2004. - № 19 (30). <http://www.dipmir.com.ua/rub6ar2.html>



Russian, Latin American and African oil.

Beijing strategists understand that energy security of China by and large will depend on the level of co-operation and mutual understanding between Beijing and Washington. Together with that, Beijing realizes that the USA aims to dominate in the world energy market. Having assumed the increased American control for energy sources and ways of their transportation in the world ocean, China being not yet able to guarantee security of these routes itself, no matter how paradoxical it might seem, will continue to depend on the “protective role” of the USA yet for a long time. No doubt that the USA uses this dependency of China in order to pressure it to neutralize possible opposition of Beijing against American expansion in the world arena.

It seems that Chinese government will do everything possible in order to avoid conflicts with Washington and provide itself with the maximum beneficial conditions for the development of its state, the level of which according to some forecast might override the American in 20 years.

## **Chapter 4**

### **International Legal problems of the Caspian region**

#### **4.1 Legal Status of the Caspian Sea**

Legal dispute about the Caspian Sea’s status is a good example of a huge international problem within CIS. This particular problem demands a complex and innovative approach. Even though externally it can be characterized as secondary due to its usual way of diplomatic activities<sup>1</sup>, in its core is complicated and touches many aspects:

- First of all this problem can not be solved same way as it has been solved in 1921 or 1990. In any case, even taking in account statements of the previous agreements, we need consensus not between two but the five states;
- Secondly, none of the states currently dominates in the region as it has been previously;

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<sup>1</sup> This statement is proved by the fact that at the end of 1990s it was not solved within the so called Caspian Commission.

- Thirdly, political and economic confrontation between these states is growing, what in turn defines their various approaches to the problem;
- Fourthly, regional scale is not limited by the Caspian states only. A number of other Central Asian states directly or indirectly take part in the problem of the status regulation;<sup>1</sup>
- In the fifth, solution of the problem is also influenced by the position of a number of outsider states (non-regional);
- In the sixth, the problem is brought up much broader and deeper than a simple definition of the Caspian Sea legal status.

What is meant by the last statement that at first sight looks as a simple resume of all statements put above?

Different approach to the Caspian Sea legal status definition is determined by the place of the problem in a strategy of regional states development. Therefore, it is necessary to take in account variously directed interests of these and standing behind them currently acting in the region, closer and farther states. In addition, there is one more group of factors: in the solution of this problem clearly stands out complication in the system of international relations linked to the emergence of non-traditional subjects in it, as well as their new aspects. Politics in this region by and large is dictated by the “energy diplomacy” that is a part of the energy part in international relations.

The most promising reserves of the Caspian region are three oil reserves in Azerbaijan ( Azeri, Chigar and deepwater’s part of Gjuneshli) and the competing with them (both economically and geopolitically) project of development in Tengiz (Kazakhstan). Discussion around the Azerbaijani project that has been called a “millennium project” was raised not just because of the “much oil”, but mainly due to the routes of its transportation. Basic variants were suggested: the northern (Baku – Groznyi – Novorosisk), the western – (Baku – Supsa (Georgia) – Odessa) and the southern – (Baku – Ceyhan (Turkey)). However, it seems like the Northern variant will not be realized soon since it has been objected by the American-Turkey-Azerbaijan coalition. Russian oil diplomacy in regards to Azerbaijan gets complicated mainly by broad activities of

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<sup>1</sup> Central Asian historic and ethnographic region includes the following countries: Turkey, Iran, all Arabic countries of the Eastern Mediterranean and Arabia, Afghanistan, Pakistan and Israel.

the Western players.

Great importance has gained Russian oil companies presence in development of the Kazakhstan project (Tengiz). Tengiz oil field development is the most perspective in the Caspian region. According to estimations, made by "British Petroleum", Tengiz oil reserves equal the volumes of oil on the entire Azerbaijan territory.

We can assume that the idea of the Caspian Pipeline Consortium (CPC) has mainly come out as a reaction to American-Turkish intentions to direct Caspian oil routes towards Turkish terminals. This in turn would push Russia away from the main financial flows. Moreover, since Turkey keeps on limiting Russian ships (of which 70% transport oil) through its canals; this statement might reflect the reality. Perhaps, if Russian oil companies have not taken part in the Consortium (they appeared here only three years after since it had emerged), then the pipeline routes could not go along the Russian Federation territory.

Thirdly, this consortium is a serious integrating factor in relations between Russia and Kazakhstan. Russia traditionally stands as a territorial middleman between Kazakhstan and external markets. Besides that, Kazakh budget 30% depends on profits from oil exports. At present, almost all oil goes as a transit through Russian pipelines.

A rapid growth of energy consumption in the world economy at the end of the XX is leading to the fact that in XXI century quality of life in any state will be determined primarily by its ability to access natural resources. Its ability to influence on international relation will be defined by the same factor. This issue becomes crucial precisely for the developed states, for who it transforms into the issue of survival. From this point of view, the post Soviet space including Russia, Caucasus, especially Caspian region, Kazakhstan and Central Asia is of a big interest for the developed states, since 60-70% of all known world resources are located here.

Eight milliard oil "contract of the century" concluded by the Azerbaijani international operational company (AMOK) in September 1994, was the beginning of "the third oil boom in Baku". AMOK has signed an agreement on the three sea oil reserves "Azeri", "Chyrag" and "Gyuneshli" development. Oil production from "Gyuneshli" made a half of the whole produced oil in the republic.

Oil is definitely the most important product in Azerbaijan; however, they have made an attempt to increase gas production as well. Traditionally, Azerbaijan was a gas importer. However, nowadays the situation is changing due to the more rational utilization of gas resources, the initiator of which is AMOK. This economic utilization can be made due to the use of gas that has been earlier burnt. At present gas from “Chyrag -1” comes along the pipeline to the Neftyaney Kamni (Oil Stones), from where it is further distributed and controlled by “Azerigas” that transports it further to the land. It is also possible that while further sea reserves development more gas reserves will be discovered. Drilling of two potential fields in Kharabakh by the international oil company (CIPCO) did not bring any results. There will be one more test, and in case of this field commercial livelihood, it will be developed for gas production.

In order to further attract foreign companies to the gas and oil industry and as a result of the pressure from the Kazakh Offshore International Operational Company (OKIOK), Kazakh government is taking measures to improve the investment climate. To be exact, tax regulation for the resource contracts as well as customs rules have been changed in order to regulate oil goods import tariffs.

Turkmenistan is the second biggest gas producer among other states of the former USSR. Due to the fact that gas industry is going to play a leading role in the economy of the state in future, its government made it a corner stone for its economic politics. The strategy of the sector development has been defined. It expects the foundation of a national oil company that would own income from agreements and will function on the competition basis along with foreign oil companies. They take measures to attract more foreign investors, and within the framework of improved relations with Iran and the USA the perspectives seem to be promising.

Before rich in oil Caspian resources have reached world markets, it is necessary to solve problems concerning the oil and gas pipeline system. Pipelines of the Caspian region concern not only mechanic and financial questions but also political. The USA along with Azerbaijan, Georgia and Turkey vote for the export pipeline from Baku through Georgia and further to the Turkish port Ceyhan. It will in turn weaken the Russian and Iranian influence in the region.

Baku-Ceyhan route has the strongest support. The estimated costs for the pipeline construction seem to be big, and the route itself might face various technical difficulties. It means that AMOK might choose one of the other offered routes, for instance a parallel route Baku – Novorossiysk.

Even though disputes around pipelines continue on the governmental and commercial levels, the majority of the involved sides agree on the point that precisely the variety of routes might be the perspective step forward. Finally, it is expected that all suggested routes should be activated in order to secure Caspian oil export.

Geopolitical importance of the Caspian region significantly expanded the number of subjects involved in the defining destiny of the region. First of all, the USSR collapse significantly increased the number of the pre-Caspian states. Secondly, these states include the so called “Secondary Caspian belt” states. They mainly include Turkey and in future might also include Iran and Pakistan. Thirdly, the region has become an object of attention and the field of actions from the USA; the UK, and in future the EC and other. All this complicates the problem solution of the Caspian Sea status even more.

Major directions in the Russian policy concerning the Caspian according to the Conception of the Russian Federation Foreign policy, signed up by the president Putin in June 28, 2000, consist of the following: “Russia will try to reach consensus on such a status for the Caspian sea that would allow the pre-Caspian states mutually beneficial collaboration on regional resources exploitation on the basis of justice and taking in account legal interest of each other”.<sup>1</sup>

Somewhat earlier in June 2000, Russian and Kazakh presidents called other pre-Caspian states to an active dialogue concerning the new legal status of the Caspian Sea. In order to respect sovereign rights on resources utilization while keeping mutual use of the sea space in order to provide free floating, and regulated fishing and environment. They supposed that consensus division of the Caspian bottom should be fundamental.

In order to reach the agreement between the Pre-Caspian states interested in the issues of the Caspian resources division along the modified middle line, could be an agreement on reserves development that are located in the potentially disputed zones, for example using the “50/50” approach with the historical costs pay back.

Russian side suggests to pay more attention and respect to the environment protection in the

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<sup>1</sup> Независимая газета. 2000, 11 July.

region and to conclude an environmental agreement between all the pre-Caspian states, since the environmental condition and the bio-resources exhaustion is getting critical. In this regard, the suggestion concerning creation on the basis of the parity organ of the five pre-Caspian states was brought up. This organ would resolve issues concerning conditions on utilization of the Caspian sea.

Leaders of Kazakhstan, Azerbaijan and Turkmenistan supported the suggestion from the Russian side, and expressed their readiness to close co-operation in this regard, and as a result assigned Russian president as a special representative for the Caspian Sea status regulation. All this has helped to compare various sides' points of view, and find out same and opposite positions.

Russia carries out regular consultations on the Caspian Sea status not just with the CIS states but also with the foreign coastline neighbours. Hence, during the Russian-Iranian consultations held in July 31 2000 in Tehran, both sides confirmed that in order to define a new legal status for the Caspian Sea, a legal regime set by the Soviet-Iranian treaties from 1921 and 1940 has to be observed. Russian side has one more time underlined that the Caspian Sea division into national sectors is not acceptable for it.

Such projects as "For protection and proper use of bio-resources of the Caspian", "For environmental protection in the Caspian" and "About sea trade in the Caspian" were given for evaluation to the Iranian side. Russia and Iran agreed to continue consultation in order to find mutually acceptable problem solutions concerning the Caspian Sea.

#### **4.2 The Caspian Sea as a zone of rivalry between Russia and the USA**

Due to contradicting interests and opinions this region has become a zone of competition between Russia and the USA. In order to decrease the degree of competition in the region, experts from American leading Intelligence Centre by Carnegie in Washington suggest the following measure to be taken:

First of all, the USA should exactly formulate priorities in their politics regarding the Caspian states. This in turn will allow differentiating the whole region and its separate units and approaching each of them politically differently. Secondly, the USA has to keep on supporting

sovereignty and stability in the region. Thirdly, the USA together with Russia should start regular consultations on issues concerning the situation in the region in order to clarify each side's goals and agree on rules of actions. Fourthly, the USA same as Russia should find the ways for cooperation in the region and choose positive solutions for various problems starting from the peacemaking activities and finishing with development and commercial exploitation of the basic resources, produced in the region.<sup>1</sup>

According to the Fund specialists' estimation, "first of all, from the strategic point of view, the creation of the sovereign states is viewed as a key issue in the process of bringing stabilization to the region and abroad as well as in order to prevent arousal of the former threat of the Soviet scale. Secondly, from the trade and economy point of view, the USA have a serious interest in the region – mainly in the energy sector of Central Asian and Caspian states. America needs an access to this region and its resources."<sup>2</sup>

Hence, looking from this angle liberal American specialists believe that in relations between Russia and the USA in this particular strategically important region "the broadest is the zone of combination of cooperative and competitive elements, so called "grey zone"... It actually includes realization of energy projects in the Caspian". However as they continue "a significant part of the Russian elite tends to see the US politics in regards to the CIS (including the Caspian and Caucus), as anti Russian in its core. From the Carnegie centre specialists' point of view, it is "a big obstacle on the way to positive development of Russian-American relations"<sup>3</sup>.

Covering nuances of the oil diplomacy in the region, the authors of "Foreign Policy and security in contemporary Russia" journal: well notice the following: "Moscow collaboration with the Central Asian states and Caucus – is a broad and complicated number of problems of the Black Sea - Caspian zone, coherent with the politics of the Balkans, the Ukraine, Turkey, Iran, Pakistan, India, China, with the events in Afghanistan and more active line of the USA and other Western developed states"<sup>4</sup>.

The USA as it has been mentioned above, demonstrate certain activeness in penetrating the region. Moreover Washington does not hide its intention to pursue further to access resources in

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<sup>1</sup> U.S.-Russian Relations at the Turn of the Century. Washington (D.C.). 2000. P.98.

<sup>2</sup> Ibid. P. 95

<sup>3</sup> Ibid. P. 35

<sup>4</sup> Внешняя политика и безопасность современной России. М., 1999. Т. I. p. 218

the region even by force in case if it is needed. Yet in 1994 president B. Clinton signed up a document which clearly states the USA readiness to use the force in order to access natural resources: “the USA are keen on unlimited access to natural resources abroad... When the vital interests of the nation can be put into question, the use of the force will be decisive and if necessary one-sided”.<sup>1</sup>

Having realized importance of this region for Russia (during many decades was a part of Russian Empire, and then of Soviet Union), Washington announced that “denies the concept of the world division into spheres of influence”. This statement in its essence is somewhat identical to the statement concerning “the principal of the open doors”, which the USA expressed in 1899, while complex preparation to intervene China. And now, more than hundred years after, trying to make an access to energy and other resources of the Caspian, as well as to create a transporting corridor Europe-Caucus-Asia for their free mobility, the White House has announced this region to be a zone vitally important for the USA.

At present, with the emergence of the USA in Caucasus, tendency of shifting power in the Middle East is gaining certain sustainability and in future might lead towards a radically new balance of powers and interests in the Southern direction. Moreover, Washington assumes that the USA cannot totally distant themselves from the processes going on in Caucasus, the border territory with those states, where the USA has had its interests and alias obligations for a long time.<sup>2</sup> In this situation American diplomacy tends to take part in Caucasus affairs. American companies out of their own initiative or according to invitation from the Caucasus side start participating or look into opportunities to take part in various energy development and transportation projects.

For the geopolitically and economically important influence in the region there is a rivalry between the USA and the EU, though both centres agree that they would not like to have a strong competitor in the face of Russia. “ Pressure concerning Chechnya is weakened in order to demand compromises from Russia in other areas – Caucasus, Balkans, Central Asia” – is underlined in “Strategies for Russia: daily news for the president – 2000”, issued in Moscow by the influential Council on foreign and internal politics”<sup>3</sup>

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<sup>1</sup> The White House Papers. 1994 Nov. 4 p.1.

<sup>2</sup> Гарнет Дж. Э. Бизнес и внешняя политика// Pro et Contra. 1997. p. 14.

<sup>3</sup> Стратегия для России - повестка для президента - 2000. Вагриус. Москва. 2000. p. 77.



“Long debates about economic and geostrategic aspects of the oil production and transportation from the Caspian region have not at all reached any settlement in regard to newly discovered huge oil reserves in the Northern Sector of the Caspian Sea, at the shore of Kazakhstan, - Moscow Carnegie Centre announces, - the USA see this fact as one of the reasons for oil pipeline Baku-Tbilisi-Ceyhan construction, the route that bypasses Russia and Iran, while Russia intends to keep its role in the region and will insist on “the just and competitive battle for oil” in its “strategic appendix”. Real confrontation in respect to this issue is not expected but usually it causes serious tension”.<sup>1</sup>

As we assume, vitally important interests of Russia in Caucasus require well-coordinated and long-term course for development of stable, friendly relations with Azerbaijan, Armenia, Georgia (currently facing results of the “Rose Revolution”), other states, in order to stabilize the situation in the region, to strengthen collaboration between these states on the multisided basis. Russia aims to keep the security in the region, resist political and religious extremism and western expansion, aiming to capture gas and oil resources of this strategic region of the CIS. This in turn requires more differentiated regional politics. Geopolitically and economically speaking, Russian and American interests in the Southern direction clash more and more due to the increasing activeness of the States in Caucasus.

The strategic line in the USA foreign policy in Caucasus was yet defined by the president B. Clinton, who during the visit of the Azerbaijani president G. Aliev in Washington mentioned that the USA realized those “threats” which Azerbaijan faces while solving problems with its security, and firmly support active integration of Azerbaijan into structures of Euro Atlantic security . Even though it was said within American-Azerbaijani relations, we can also relate it to relations with Georgia. Further, if we take in account the fact that Armenian Diaspora in America will not stay aside from the process of the USA politics formation towards Caucasus, the same statement can be also addressed to Armenia. Since G. Aliev during his visit spoke about his worries concerning “his country’s dependence on Moscow”, then we can easily conclude which “threats” the head of the USA meant in his speech.

Current strategic tendency of the USA supposes gradual integration of the Caucasus republics into

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<sup>1</sup> Carnegie Endowment for International Peace. Moscow, 2000. p.6.

western security structures with the help of NATO mechanisms, to be precise, within the framework of “Partnership for Peace” program. The first step in this direction would be to join these republics to the North-Atlantic Council of cooperation that usually is viewed as a “bridge” between NATO and CIS. The primary task stated in the report of American Negotiation Centre in the field of national security was the following: further protection of American leadership and political presence in the region.

First of all, it means Western Interest in oil reserves in the Caspian see and the oil pipeline routes, the matter of which is a disagreement point between Russia and the USA. In return, Russia tends to guarantee itself economically and ecologically secure access to the world markets for its gas and oil resources of the pre-Caspian region.

Another important factor in the oil diplomacy in the Caspian is the UK return to the region. Till the beginning of the XX century the UK was one of the most powerful world states. The sphere of “the queen of the seas” stretched from India to the North of Africa. British capital got to flow to the Caspian only at the beginning of the XX century. Since the XVIII the region had been under the sphere of Russian influence. After the World War I and October events of 1917 in Russia, the UK influence in the Caspian got to grow. During the short-term existence of the independent republics of Caucus and Central Asia (1918-1922), London relations with the Caspian states broke up for more than 75 years. After the collapse of USSR, the UK reappeared in the middle of events: together with the USA it started pushing Western and its own interests to the region.

In many cases, political scientists see the USA and the UK actions as the same. In fact, London can be seen as one of the major aliases of Washington in its rivalry with Russia for regional spheres of political and economic influence. However, this cooperation of interests from the both powers is not fatal. Since the USA, as a superpower follows to large extent imperialistic goals: to involve new independent states of the region in its sphere of influence. Political presence in the pre-Caspian states, which are the primal participants in the regional political processes, for the UK is not at all a priority. Analysis of the London’s political course in the Caspian shows that its interests in the region first of all concern concrete economic dividends. In other words, if for Washington, Moscow and Tehran political influence is the primary goal, then London moves forward economic aspects of the Caspian strategy, and only through them tries to get secondary for it, political dividends.

It is an interesting fact that basic competitors for British companies in the rivalry for percentages of shares for the participation in the Caspian projects are often American oil producers. For example, during the AMOK foundation “British Petroleum” has been competing for a long time with Amoco for a leader position in the project and got to win. In other words, in Caspian oil projects British companies are not any behind but in many cases even ahead of their American colleagues. Moreover, it to a large extent happens because Washington forbids its companies to take part in the projects, to be realized with the help of the Iranian capital – in those areas where the USA follows its political motives, Europe breaks ahead.

London aims to create a wide network of exporting pipelines with an access to all perspective markets (China, Mediterranean, the Black Sea and other). Certainly, British companies see no sense in directing all their investments into one single market, for instance, to Kazakh or Azeri oil, creating extra competition and possible decline in demand.

We can assume that in future, in case of the final positioning of the West in Kazakhstan and Turkmenistan, the UK and the USA interests in the Caspian might drive apart even more. London will refuse to fight for political influence and start to have fruit from its successful financial actions in the region. Perhaps, precisely from this moment on the USA and the UK will eventually turn into economic rivals.

Increased attention of the USA to the Caspian region in recent years is also defined by the regional ability to become in the XXI century a real alternative to the Middle Eastern energy supplies. Taking into account contemporary geopolitical positions of the White House, the USA strategic goals in the Caspian region for the next 5-10 years will base on the following:

- to increase its presence in Central Asia and in the basin of the Caspian Sea and to strengthen the USA position in the sphere of oil and gas supplies;
- to support national sovereignty of the former USSR republics in order not to let Russian influence in the post Soviet space restoration, especially in the region of oil and gas production;
- to keep resistance to the projects aiming to strengthen “Northern” direction of the oil transportation that means Russian direction;
- to support the states of the “Soviet” Islam in order to counter balance radical Islamic movements and groups, able to prevent the USA from establishing its leading role in the

oil markets.

The USA administration has made up a special group on “Caspian Energy” under the control of National Security Agency of the USA (AOIG) and within an active support of the oil lobby and private capital. While lobbying its oil interests in the Caspian states the USA mainly count on the local elite of Azerbaijan – a pioneer in the western investments attraction to the region.

For the Azerbaijan example it is possible to clearly follow duality in the USA approach in regards to the oil route and differentiation between the official line and the strategy of the business circles. In this scheme the governmental apparatus of the USA somehow is left aside, and the private companies move forward, being a real driving force for the oil contracts realization.

Nowadays, the companies – members of the “Contract of the Century”, invested into the works within the project of AMOK more than 1 mlrd. dollars. Such companies as “Mobil”, “Exxon”, “Chevron” and other, earlier in the waiting mode, have also got activated. 8 oil contracts for 10 mlrds. dollars were signed up. 20 companies from 11 countries have become participants in Azerbaijani projects. Western experts assume that all costs for the “Contract of the Century” will be covered already within 7-10 years. The oil production for the period of contracts validity will allow getting income of more than 80 mlrd. dollars. Together with that, legal uncertainty concerning the Caspian Sea status makes American and other foreign companies include into the contracts along with the profit estimation, also risk factors that lead to lower competition in the world market and increase in project expenses. Diplomatic negotiations concerning the Sea status have been held on bilateral and multilateral basis for over five years, though final decision has not been made. An absolutely new position of Moscow might be able to move things ahead from the dead end. The position has firstly been announced at the end of March in 1998, during a meeting of representatives from Ministries of External Affairs of all Pre-Caspian states. During the meeting, it was underlined that “Russia would like to compromise on the point of the Caspian Sea division into five sectors”. However, the situation might get worse in case of Iran starting to claim its share of the Caspian resources. Hardly ever, Tehran might go for the scheme of the middle line offered by Baku.

Baku-Ceyhan pipeline construction and its possible connection with a pipeline from Central Asia (the project is lobbied by “Chevron”) – is not an economic but a political issue, since Turkey comes out as a strategically important platform for the Western countries. As for Baku,

Azerbaijan approves the pipeline construction from Turkmenistan, not only due to economic but also strategic reasons. In this respect, the point of view of the White House and Baku are same: “Big oil” should go to the world markets bypassing the Russian territory. “ Control over Azerbaijan, Georgia and Turkey - According to the American “Business Week” journal, - will give Washington guaranteed means of governing the situation in the Caspian region, balance dependence of Europe from the oil supplies from the unstable Persian Gulf, though will not stop it completely. The formation of the Euro-Asian transportation corridors (not just oil) bypassing Russia, Iran and China perfectly suits geopolitical interests of the USA”<sup>1</sup>

According to the expert estimation, probably, most of the leaders of the former Soviet Union support Baku with a hope to get maximum profit from oil and gas supplies aiming to weaken their dependence on Russia. However, lack of real alternative export routes make them keep loyalty in relations with Russia and keep some kind of form of unity at least within the CIS or the status of the Pre-Caspian states. The USA in turn is trying to possibly attract more states of the region to the integrating processes around the Caspian oil in order to guarantee stability in this potentially explosive region.

It is necessary to mention that increase and decrease in oil prices that positively influence on the CIS states economy, depend on the cyclic development of the world economy. Oil prices fluctuations – is a possible to forecast phenomenon that means, possible to correct. Hence, according to the London Centre of global energy research, Russian oil pipelines exporting to the West will be better to fill in with the Caspian then with the Western Siberian (Surgut) oil. In the Caspian case, it means that oil routes to Europe through Turkey are longer then through Russia, meaning more expensive. Besides that, construction of new alternative exporting pipelines might take several years. Without taking in account political factors after the USSR collapse, the most optimal recipient for the Caspian oil can be European regions of Russia and their neighbours from Western and Eastern Europe.<sup>2</sup> Russian and Iranian positions regarding the Caspian oil have been getting closer for a long time. Russia, Iran and Turkmenistan come with the suggestion of the mutual realization of all Caspian developments that might lead to the USA’s total elimination from the participation in the Caspian Sea resource development. Russia is currently taking part in joint with Iran oil reserves development within the “Shah - Deniz” project (the precedent letting

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<sup>1</sup> Business week. 2000 June 20. P 35

<sup>2</sup>Bzezinski Z. A Geostrategy for Eurasia //Foreign Affairs. 1997. №5. p.57.

Iran block the USA's participation in the energy projects). In Iran Russian oil workers are employed. Along with the increase in oil production and more active Russian presence both in the Caspian region and in the states to the South from the Caspian, importance of the Middle East as a possible transit way for the Caspian oil supplies to the South-Eastern Asian and Far Eastern states will increase. The demand in the Far Eastern regions is expected to grow as well. Russia interested in broader diversification of the oil pipeline routes will probably support the project to construct a pipeline through Iran till the Persian Gulf – the shortest and economically beneficial route in the southern direction.

## **Chapter 5**

### **Analysis of OPEC's activity**

#### **5.1 OPEC**

For the last six year Russia has been benefiting from the OPEC's activities and gained almost 600\$ mlrd. from the oil and gas exports . Though, luxury of the passive role might change quickly and Russia will probably have to make a decision whether to become an energy partner of the G8, mostly oil consumers, or join the oil producers and be satisfied with a role of a small bolt in a huge oil prices regulating mechanism. At present Russia is too big to stay neutral.

#### *International Situation around OPEC:*

- Venezuela and Iran express opportunistic warlike behaviour precisely at the time when OPEC is trying to make a new deal with the International Energy Agency that will ensure determined growth of prices and industrial reserves cost distribution between producers and consumers.
- Political changes having recently happened in many Arabic OPEC member-states, led to a radical change in their positions. Now they express much higher commercial pragmatism.
- Managed to set an average price of \$20 per barrel in 1980-s and 1990-s, now the cartel seems to be trying to reach a stable average price between \$55 and \$60 per barrel.
- This price level should not bring any serious changes to oil demand and its growth of consumption. Vice versa, OPEC members will witness annual price growth of the produced oil from \$185 mlrd. in 1990-s till \$700 mlrd.

- Without such an agreement oil prices will stay volatile<sup>1</sup> and there will be more probability for its growth in recent perspective (with a certain risk for a short-term jump of prices due to low supply); from the point of view of a long term perspective, its positions are weaker due to alternative sources of energy and lower demand, multiplied to the growing supply of other sources currently being in the periphery of the market.
- That is why, mutually acceptable stable oil price is \$40 per barrel, and it will hardly change until the new oil deal comes into force.
- An unknown factor is a factor of “maximal oil”, meaning ability of OPEC cartel together with Russia and other states of the Caspian basin to increase productivity and amount of oil production in order to satisfy growing demand.
- To be realistic concerning Russian and the Caspian states, the regional share of the world oil production should increase from 15% to 17.5% this year and till 20% by 2015.

In 1980-s and 1990-s there was a close co-operation between OPEC and main oil-consumers, especially the USA. In fact, one Saudi Arabia – the leading cartel’s member state at that time – signed up an agreement with the USA that it was obliged to use its huge oil reserves and additional reserves capacity for non-stop supplies to the consumer markets and keep an average expected price for its export. Other Arabic states Persian Gulf oil producers, such as Kuwait and UAE, cooperated with Saudi Arabia as “compensated producers” during that period, on the same basis as Venezuela at the previous regimen.

This “agreement” appeared after a sudden jump of oil prices at the end of 1970-s (when oil price rose up from about \$13 per barrel at the beginning of 1979 till \$40 and higher per barrel in two years), that threatened world economic security. Having agreed with the West/ the USA on noninvolvement into the structure of cartel OPEC and guaranteed military protection for Arabic oil producers, Saudi Arabia agreed on the average rate of \$20 per barrel and that all profits from oil sales it will use for expansion of its industrial capacities and spend reasonable sums for infrastructure and goods, supplied by “the state-consumer”.

In 1999 this deal failed due to the inner disagreements between Saudi Arabia and Iran concerning the price strategy. Saudi Arabia intended to follow the conditions of the deal made in 1980-s, and Iran aggressively insisted on a higher price range. Hence, these disputes led to the lack of agreement on oil production. As a result of the following disagreement on oil production,

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<sup>1</sup> Bzezinski Z. A Geostrategy for Eurasia //Foreign Affairs. 1997. №5. P.57.

since all members started aggressively get the oil in order to protect their “quotas”, the price on raw oil has fell slightly higher than \$10 per barrel. Similar actions have almost bankrupted Saudi Arabia, Iran and several other smaller states-producers.

Eventually, after the crisis the agreement was signed. OPEC announced that the new average oil price will be \$25 per barrel. This price supposed to reflect increased inflation for the last 20 years. This new average price kept till the end of 2001, when a new risky reality of supplies and a necessity to keep high level of reserves in consumer-states turned the oil prices upwards. (See Appendix 1).

Average daily demand of raw oil in 2001 was 76.2 mln. barrels. At present the same figure equals 84,7 mln. barrels (see Appendix 6). It means that the growth is 8.5 mln. barrels a day. The reason for this additional growth is mainly due to China and India (cumulative demand in which has grown from 3.3 mln. to 15.5 mln. barrels a day) as well as the USA, where the growth of the demand is 1.3 mln. barrels a day. Part of the additional demand can be explained by the increased commercial use of oil, especially in petrol production, as well as increase in the strategic oil reserves in case if oil supplies will decrease.

Additional offer has come from Russia and the Caspian states (+3.7 mln. barrels a day), that increased OPEC’s oil production.

For the last five years, when the oil price has been constantly growing from \$18 till the current level of \$70 per barrel, OPEC has undergone serious changes. Besides the aggressive price policy from Venezuela, Arabic states-producers have faced full change in the political administration. Old leaders (in 1980-s and 1990-s) have left and gave a place to a more pragmatic generation. Among the new administration hardly anyone is ready to exchange courtesy with the USA and keep prices on the lower level. As it is obvious from various statements and actions coming from the key players, major producers of OPEC are currently for rather higher average oil price in compare with the one that has been kept for the last two decades.

At the same time they also clearly state a need to set such a price that would not damage neither future growth of oil demand nor OPEC’s positions in the oil market.



There is an opinion, that the new average price is \$55-60 per barrel. Such figure was mentioned in his commentaries by a Saudi Arabian Minister of Oil. The general Secretary of OPEC has named the price at least \$15 higher due to the “fear factor”. Average OPEC producers will try to keep the average price in about this level since:

- It was well demonstrated that the price of \$55-60 per barrel does not damage perspectives of economic growth, though if higher, \$70 and over per barrel might have negative consequences.
- \$55-60 per barrel is not enough to decrease the demand or speed up the process of research on alternative energy sources (such as of oil nature stones in Canada), or push projects on development new alternative sources of energy.
- This figure is politically secure. Much higher average price, able to damage perspectives of the economic growth, might increase political repressions against OPEC producers, especially among the Gulf producers.
- Despite the rhetoric of Venezuela, \$60 per barrel will allow to implement positive changes into the economies of the producer-states in compare with the income of 1990-s. With this oil prices, OPEC will be able to be more stable as an organization.

The main reason why OPEC is able to keep its right to control oil prices in future is that the cartel member-states have not got enough of individual industrial capacity to satisfy growing demand. It might be due to the fact that member states do not have oil reserves.

This debated question might be answered within time. As for now, we know that due to political changes in the OPEC member-states as well as due to the obvious economic realities (precisely Middle Eastern states have one of the highest level of population growth in the world) producer-states feel a strong need in reliable and larger oil supplies that it used to be in the past. One of the biggest disappointments inside OPEC in its relations with consumer-states is that OPEC is expected to support extra oil reserve capacity in order to satisfy the demand, while non-OPEC pure consumers and producers benefit from continuous production on the maximum level. Moreover, OPEC has already criticized the fact that everyone expects from it certain sponsoring of additional capacities while consumer-states develop projects on alternative energy sources.

It means that OPEC is lobbying a new deal with the International Energy Agency as a representative of the consumer-states. It needs certainty in the future growth of the demand as a

part of the mutually beneficial deal aiming to increase opportunities for oil supplies. It also wants a more just distribution of costs to keep extra reserve capacity, in order to balance price fluctuations. In the past, when the oil price was declining, it was OPEC who controlled (by decreasing) oil production in order to stabilize prices, while other producers kept on full production and financially benefited from it.

Definitely, it is uncertain whether Saudi Arabia and other producers are able to really improve their industrial capacity in order to satisfy future demand and keep at the same time the average oil price. However, it is obvious today that so far OPEC states are not keen on spending money on capacities until a new deal of equal costs distribution to support extra reserve capacities comes into force.

## **5.2 Russia and OPEC**

At present daily oil production in Russia equals to the one in Saudi Arabia though the last has declared its reserve production capacity of 2 mln. barrels a day. Russia uses its maximal capacity of oil production. Much more significant role while oil prices formation has oil volume exported from the pure producer-states to the pure consumer-states. It is estimated on the level of slightly higher than 40 mln. barrels a day, or slightly less than 50% of the total world daily production. In the Appendixes 3 and 4 there is a table with pure oil importers and exporters.

Nowadays Russia exports about 7 mln. barrels of raw and refined oil a day, or 17.4% of the total world export daily. The Saudi Arabia share is about 20%, and OPEC's share is 58% of export.

For the last six years Russia was lucky in a way that it managed to increase its level of production and export while the world demand was continuously growing. At the beginning of 2001 when oil prices returned back to the old average figures, OPEC pressured Russia to decrease export within the politics of price control. Russia refused. Fortunately, the confrontation was avoided due to the sudden demand growth after September 2001.

Since OPEC is currently looking for getting a new deal with both the consumer-states and other producers from the perspective of distribution of costs on capacities and industrial planning, Russia can not be excluded from the equation due to its vastness. In a short-term perspective, it should not cause any problems since the demand remains high and Russian production/ export

have reached a certain level of stability due to the inexistent infrastructure and delays in administered formulations and norms for oil production. However, despite the delays, this infrastructure and legislative base are somewhat being planned, and OPEC will be eager to make a cooperative agreement with Russia in order to control production growth and price levels within the framework of any new deal with the International Energy Agency (IEA).

Up to the present day Russia has been in a good position that allowed it to have a cake and eat it: it has been between producers and their partners from G8, who are mainly energy consumers. Nowadays, Russia is too big of an oil exporter to let this situation continue for a longer period.

In 1999 Russian presence as a pure exporter in the oil market was much less noticed until the president Putin, for whose rule production and export of raw and refined oil has reasonably grown. Today, pure Russian export exceeds the level of all main exporters, non OPEC members or under OPEC's influence.

It is expected that in the coming years oil production and export volumes will be growing rather slowly. Moreover, taking into account OPEC's lack of capacities growth, yet several years there should not arise any serious problems, especially if current forecasts concerning the growth of demand come true.

On the other hand, if demand is going down and any other factor, lowering prices comes into picture, then definitely the issue about co-operation in price regulation will arise and make Kremlin take some hard decisions. Although, so far these factors that has created the delay in production growth and disappointment among the Russian partners from G8 – these are those factors that also helped Russia in its relations with OPEC and postpone any other hard to make decision.

The law about use of reserves will set the rules for investments and oil and gas fields development for foreign companies. Without this law no new oil field will be set for development. Today, this law has been delayed almost for one year, and probably will require at least six month more until it comes into force (according to the optimistic forecasts).

So far nobody knows which tax regimen will be applied to the new fields. Some Governmental officials slightly mentioned that there might be a temporary rule of no or lower taxation

applicable for new fields until something concrete is suggested.

Basic future routes for export have been defined (for example, Murmansk), though only eastern route (stage 1) has been approved, but even here there are still uncertainties concerning costs, deadlines and way.

The government has announced that new norms regarding such issues as environmental management, for new projects in the mining industry will be set. So far there has been not a single statement published. In many European countries, to compare, similar norms have become the main factor for the rise in project costs.

### **5.3 Increased role of Russia and the CIS**

Appendix 6 shows the historic and forecasted change in demand and supply in the main economic block from 1992 till 2015. Appendix 7 shows the percentage change of every parameter of the data year after year.

Historically speaking, an average annual growth of demand was about 1.5%, mainly due to the growth of demand in the USA (especially for petrol). For the last years main generators of the demand and its growth have become China and India, since the demand in the USA and other countries has declined.

In the example model it is supposed that pure growth of demand will keep on remaining on the average level of 1.5% a year: slowing down growth in North America (+0.3% annually) will be compensated by a higher growth in China India and the rest of Asia (3.0 – 4.0% annually). All this plus the expected growth in demand in Eastern European regions should keep the average annual growth on the level of 2.5-3.0% in the region, excluded from OESR.

From the supply point of view, it is still expected that oil export from Russia and the Caspian Sea can be growing 3.5% a year. Certainly, this process will not be equal throughout the region, but for today there are many plans. Besides that it is expected that Russia will finally move ahead from the dead point in its legislation, administration and infrastructure. All these will in turn support soon new oil fields development.

The following table below shows direction of change for the OPEC's and Russia/ Caspian Sea states market share in the total world oil production. OPEC's share remains constant, while Russia, especially during the first post Soviet years has undergone sudden decrease in its share, and only during the Putin's rule the economic growth has restored its market share.

Table. OPEC's and Russian/ CIS market share.<sup>1</sup>

	1992	1996	2000	2006F	2010F	2015F
OPEC	39.7%	39.6%	39.4%	39.6%	39.6%	40.5%
Russia/ CIS	13.2%	9.9%	10.4%	14.6%	15.7%	17.4%

F – for forecasted

Suppositions that have been used for the export growth forecast from Russia/ the Caspian region till 2010-2015, are approximate on purpose, since as a practice shows political factors may play main role in a change of priorities and project planning.

Appendix 6 shows the expected growth of the export volume from Russia/ CIS from 2.4 mln. barrels a day from 2005 till 2010 and growth of the additional volume 2.6 mln. barrels a day from 2010 till 2015. These are reliable figures. If current “probable” projects would be added to the “possible” projects, then growth in volumes would be 3.75 mln. barrels a day by 2010 and 4.40 mln. barrels a day b 2015.

In this case by 2015 the Russian/ CIS market share would be 20%, while OPEC's share would decline till 38.5%. This fact is the main reason why Russia will not be let to stay neutral for many years ahead.

This year export growth of Russia should be medium, though there are several plans probably in the execution stage, or under the category of “possible” which should keep the stable growth of export at least on the average level shown in the Appendix 6.

<sup>1</sup> Source: BP Statistical Review, OPEC, Alfa-Bank estimation. Note: \* from each average daily demand for every year.

Planned modernization will allow increasing industrial capacity several lacks of barrels a day. By 2010-15 current plan expects export growth (to Japan and the rest of Asia) till 1 mln. barrels a day.

Shareholders have finally agreed on final doubling of capacities till 1.2 mln. barrels a day from the current year till 2008, when the full capacity will be reached. The overloaded Bosphorus is the main problem, though the planned pass through Bulgaria and Greece with a pipeline transferring 1 mln. barrels a day will finally help provide additional transportation from the Black Sea. It will deliver new Caspian oil.

It was expected that this tube with the capacity of 1.5 mln. barrels a day would start working in summer 2006. At the beginning the capacity will be little; it will reach its full capacity only by 2008. It will transfer Azerbaijani and Kazakh oil from new fields.

*China-railway.* By the end of the year Russian railway plan to increase capacity of 100 000 barrels a day along the export way to China.

*China-Kazakhstan.* A new pipeline from Kazakhstan to China has been recently opened. By the end of 2007 it will reach the full capacity of 200 000 barrels a day.

*Hasagan.* It is expected that the Hasagan oil (Caspian region) will gradually fill in the pipeline with the capacity of 1.5 mln. barrels a day (probably, its full capacity will be reached by 2015). The only remained important issue is in which direction the oil routes will develop: the USA insists on the parallel oil pipeline along the Baku-Tbilisi-Jeihan line, that is going to the Mediterranean Sea, but China is ready to pay the full price if the same line would go to the East, while the most effective direction remains Southern – to Iran, and only then the route to China and other Asian markets.

*Pacific Ocean.* According to some research, Russia has already started construction of this pipeline on the first stage, that by the beginning of 1009 will transfer 600 000 barrels a day to the final destination, being at the edge of the Chinese border. At first the plan was to prolong the tube till the Pacific Ocean shore and increase the capacity till 1.5 mln. barrels a day.

*Murmansk.* There has been a plan to build a pipeline to transfer 1 mln. barrels a day from the

Eastern Siberia to Murmansk. This plan was at first suggested by YUKOS at the beginning of 2003. Then, it was denied and amore ambitious Eastern plan was accepted. It is hard to say whether this pipeline will be eventually built or not since it depends on the Eastern Siberian oil and gas reserves. Right now this pipeline construction remains under “possible”.

Appendix 5 gives examples of the states with the biggest world oil reserves, shown according to the size of the reserves according to the BP Statistical Review. It is one of the moderate estimation of the reserves that shows general figures on confirmed oil reserves in the level of 1200 mlrd. barrels. At the current level of production this reserves will be sufficient for the next 40 year, although in case of “maximal production” they might exhaust much earlier.

On the other side, we have estimations from the US Geological Survey and Shell Exploration Agency that shows that all evacuated reserves are about 2500-4000 mlrd. barrels (that depend on who to estimate such fields as Canadian sands).

Apparently, the figure shown in the table for Russia (77mlrd. barrels) is much lower. Russia has not been making vast survey on its reserves with the help of modern technology for over 30 years. And continuous flow of research on its reserves made by independent agencies shows a more realistic figure of about 150 mlrd. barrels.

Taking in account the 77 mlrd. barrels figure, we may conclude that the period of exploitation of Russian reserves (at the current volumes of production level) will last only 22 years, and the typical Middle Eastern Model will be sufficient for the next 75-100 years. Current Saudi Arabian reserves (keeping the oil production at the current level) will be enough for the next 75 years, and Iranian reserves will be enough for the next 93 years, and Kuwait and UAE – over 100 years. If Russian excavated reserves will be confirmed to be 150 mlrd. barrels, then Russia will get a more realistic period of exploitation of about 45 years.

## **Conclusion**

Studying particularities of oil factor in the modern geopolitical balance of powers has a practical meaning not only for the economic development of a state but its foreign policy as well. If Russian oil companies are not yet ready to be an example of effectiveness, the days of their starting development are already in the past. They quickly reinvest the capital. Relying on

them Russia get additional weapon in its geopolitics. Their activeness in the world oil market testifies about the fact that in the new millennia there has been a change not only in the hierarchy of the subjects of the market but in the entire world politics. Obviously, new actors are not able to change the leading role of the sovereign states. On the other levels of the hierarchy there is a certain chaos due to the crossing interests as well as the activities of the new participants: multinational corporations, non-governmental organizations, social groups and etc. And the states have to take the situation in account leading such an energy policy in the world arena that would take into account both interests of a state and all other actors. However, these actors usually lead a politics against one state's interests.

Russia is the only state in the world that's proved oil reserves have grown up. This in turn increases significance of the oil factor in the scenario of the global development in the XXI century. As a result, Russia has got the seventh place in the world (about 6% of all oil reserves). This fact points out the growing significance of the Russian oil for the West. It means the growth of interests of the western oil companies in Russia, what eventually should turn out as a growth of the investment attractiveness of Russia, as well as to increase its opportunities in the foreign politics.

During the next 50 years Russia is expected to become one of the main global growing centres of oil production. Moreover, it will be the centre molding its oil politics itself without any bounds to OPEC, and the new markets penetration (Eastern Asia and the USA) will make this politics much more flexible. Due to the fact that, on one hand, the oil production in the USA and Western Europe will be decreasing, and on the other hand oil consumption in the Eastern Asia rapidly growing , the influence of Russia on the oil market will soon increase. Although, whether Russia is able to use the favorable situation or not depends on how effectively stable Russian oil companies are going to work.

Further development of Russian oil industry will be going within structural shifts in the world geography of oil production. Even though, in the USA or Northern Sea the oil will not come to an end after five or ten years, these regions have already over lived their peak periods, and production there will be gradually further decreasing, also due to the increased production costs.

Russia's independence from OPEC then will get crucial. Joining the cartel for the Russian oil



industry at its present point is impossible – Russian oil companies are private; when in OPEC countries they are state-owned. That is why states abilities to influence on production are very different. Moreover, the policy of maneuvering between OPEC and the main oil producing states, like the USA, Russia has led for the last several years, proved to be successful.

Integrating processes in various regions of the globe, energy globalization, fading away economic and ideological boundaries as well as emergence of new independent states, including Russia and the CIS, exporting energy resources, increases the role of the energy factor in the formation of the new system of international relations.

In the world energy new geopolitically important figures among oil producers immerge, such as Russia, China and many other. Many newly formed Russian oil companies start to form their international interests and priorities of the oil diplomacy. Together with the support from the state they are able to broaden the sphere of international co-operation, constructive collaboration with the western TNCs, even within fierce competition, to work out its own rules of the game and influence together with the strengthening Russian position in the world community, on the geopolitical reorientation of the beginning of XXI century.

Caspian region is one of the key international political priorities for Russia. Leading directions in Russian politics in the Caspian region according to the Concept of Foreign policy of Russian Federation, set by the President of Russian Federation, V. Putin 28<sup>th</sup> June 2000, speak about the following: “Russia will try to reach such status of the Caspian sea that would allow pre-Caspian states to start mutually beneficial collaboration on energy resources exploitation on the just basis taking into account interests of each other”.

Caspian region attracts close attention from many world states. However, they are mainly attracted by oil reserves, good geographic location, rich bio resources of the region, growing demand in energy export and transportation. Especially, it concerns the USA. Despite the fact that pre-Caspian states first of all look for the economic benefits, the USA has come to the Caspian region mostly due to the geopolitical interests.

Official line of the USA is still to support the idea of many oil and gas-pipeline routes through the region. It means the projects of the Caspian Pipeline Consortium (CPC) through the territory of Russia, oil pipeline Baku-Supsa, Trans Caspian gas pipeline from the territory of

Turkmenistan and oil pipeline Baku-Ceyhan.(see more detailed info from<sup>1</sup>) The USA claims that their interests are not limited by the oil and gas production. The USA Administration intends to further regulate conflicts in the Nagorno-Karabakh and Abkhazia, to bring stability and democracy in the republics of Caucus and Central Asia, creating in these states market economy and integration into the world economy. In addition, Washington is interested in strengthening position of Turkey as a geographic, trade and cultural bridge between Caspian region and Europe, being a pole of attraction for the southern republics of the former USSR. One of the most important tasks for the USA is to prevent pipelines construction through the territory of Iran.

All these issues have determined the role which the USA has given for the project of oil pipeline Baku-Ceyhan (Turkey), in spite of the declared variety of priorities. The main problem, has however emerged due to the fact that the oil companies taking part in the Caspian oil reserves development did not support the project in its beginning stage due to its high costs, having preferred less expensive Baku-Supsa (Georgia), and further along the Black Sea through Bosphorus.

All efforts of the USA administration are directed to meet understanding between the interests of oil companies and interests of those states that take part in the projects of the region.

The EU has its own interests in the region as well. It has sponsored the conference in Baku within the project “Silk Road” with the participation of presidents, prime-Ministers and administration from 33 countries, including the USA, China, Japan as well as international organization. Project has its aim to modernize and create new transport communications linking Europe with Caucus and Asia. 14 states that are the basis for the TRACECA (“Transport Corridor Europe-Caucus-Asia”) group have signed Baku declaration by which they are obliged to realize the project and restore the historic “Silk Road”. The USA, China and Japan have a big interest in getting oil from the region in perspective.

The idea to restore the “Silk Road” has come as a result of milliard of direct investments from the West directed to the Caspian and Central Asian regions to develop reserves (only Azerbaijan has signed contracts with 20 foreign oil companies for 30 mlrd. dollars), that intends to get means to control the situation in the region and behavior of the local states.

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<sup>1</sup> <http://www.eia.doe.gov/emeu/cabs/caspgrph.html>

Russian suggestions concerning more reliable and economically beneficial routes of the trade flow and pipeline connections (analogical projects were also suggested by Iran) have been ignored. The point is that reasons behind the project are mainly political: to create trade-transportation route from Western Europe to the Far East precisely to by pass Russia and its trans-Eurasian communications. For this reason the West is ready to neglect even the fact that not all states through whose territories the “Silk Road” route would go through are able to control their territory. Uzbek and Georgian presidents do not hide the fact that they welcome presence of the West in their territory and its intention to increase its influence with the help of the “Silk Road” project.

It is important to mention another big player in the region – Iran. Although from the economic point of view Caspian reserves are not of a great interest to Iran, its interests are in protection its political influence in the Caspian Sea region. However, for this Iran needs a certain political means to pressure its neighbors. These means are issues concerning the Caspian Sea status.

If for Iran the Caspian oil is not that important then for the rest of the Caspian states it is crucial, taking in account the increased role of the Caspian oil in the world market. Apparently, not only the EU, but also the USA, China and Japan are interested in decreasing their dependency on OPEC in future. According to the opinion of various analytics, Russia has realized this fact and has actively started a work with the pre-Caspian states to create oil and gas cartel that can become a serious challenge for OPEC. However, for all this, stability and security in the region are necessary.

This empirical research has shown and confirmed the importance of oil factor for the current world geopolitics on the example of the Caspian Sea region. It has also pointed out on the modern international relations being shaped by economic demand from states whose survival depends on constant oil supplies from multiple donors. The future of international relations is expected to be driven by energy (especially oil and gas) factor as well, and as long as the resource base in one region of the globe will be exhausted – a region with a more potential or newly discovered resources will draw close attention from those whose survival is to a high degree dependent on gas and oil. The category of shark-states is made of growing China and India as well as imperialistic the USA. Time will show the result of the “Big Game”... The research gives a platform for further researches to be carried out in the field.

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27. [www.caspiy.net](http://www.caspiy.net)
28. [www.caucasus.dk](http://www.caucasus.dk)
29. [www.energyobserver.com](http://www.energyobserver.com)
30. [www.eurasia.ru](http://www.eurasia.ru)
31. [www.gazetasng.ru](http://www.gazetasng.ru)
32. [www.igpi.ru](http://www.igpi.ru)
33. [www.mid.ru](http://www.mid.ru)
34. [www.ngfr.ru](http://www.ngfr.ru)
35. [www.np.kz/2002/35/mirl.html](http://www.np.kz/2002/35/mirl.html)
36. [www.oilandgasonline.com](http://www.oilandgasonline.com)
37. [www.oilcapital.ru](http://www.oilcapital.ru)
38. [www.pinr.com](http://www.pinr.com)
39. [www.rusngo.ru](http://www.rusngo.ru)
40. [www.turkmenistan.ru](http://www.turkmenistan.ru)
41. [www.us-info.state.gov](http://www.us-info.state.gov)
42. [www.wep.ru/news](http://www.wep.ru/news)
43. [www.worldenergy.ru](http://www.worldenergy.ru)
44. <http://www.worldpress.org/specials/pp/front.htm>
45. <http://news.bbc.co.uk/2/hi/business/4577497.stm>
46. <http://www.rpi-inc.com/ordermap.htm>
47. <http://www.eia.doe.gov/emeu/cabs/casprph.html>



## **Appendix 0:**

### **Geography and geopolitical importance of Central Asia**

Central Asia is a vast region that is landlocked in the heart of Asia. Generally speaking, Central Asia is a vast region that has been for centuries a strategically located. The geo-strategical location is due to several factors. First of all, the region is situated in between several great powers of Eurasia. This region has been always a bridge or a donor-region. It has never held dominant stationary population and its natural resources were always used by some other power. Central Asia survived many conquerors, emperors, divisions and fragmentation of its lands. For many centuries the region had served more as a battlefield for the outside powers, and hardly ever had any dominant strong power of its own. Geographically speaking, Central Asia had both advantages and disadvantages. On one hand, from its central location it had access to main trade routes. Its geographic location provided the region with the changing climatic condition all over the region and natural resources. This central location, on the other hand made the region strategically weak against bigger powers and vulnerable to attacks at any time from any angle.

To the North Central Asian steppes allowed the lands to be easily captured by Huns and Mongols in ancient times, and later penetrated by Russian traders supported by railroads. Russian imperial geopolitical interest made it go down to Central Asian lands to search for new southern ports. Later on, the Soviet Union with its ideological interest in expanding its power further to the South East, reestablished its dominance in the region up to Afghanistan borders. To the East, the dominant demographic and cultural position of Chinese empires constantly threatened Central Asian lands that had been several times conquered by Chinese rulers in various times in history. During the Sino-Soviet ideological alliance, China established its power in Tibet a part of Central Asia. China after the fall of the iron curtain and the collapse of the Soviet Union is regenerating its economic and political power in the region and might be projecting its power further to Afghanistan and Kyrgyzstan.

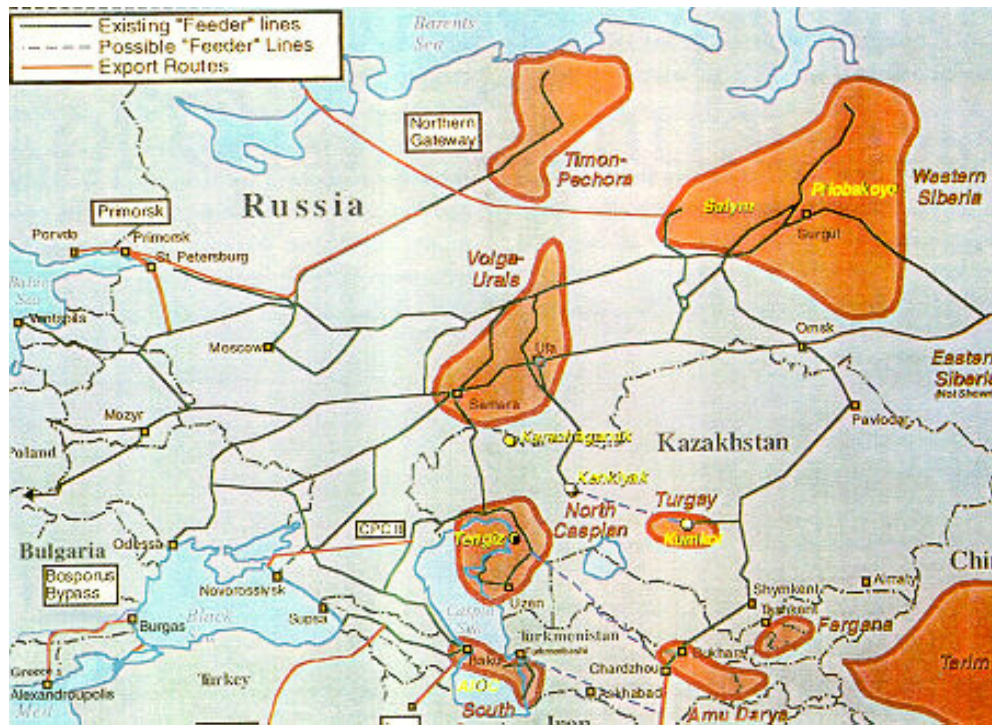
Indian influence on Central Asia has been known historically. Several Indian dynasties ruled parts of Central Asia. Nevertheless, the religious differences and the vast natural mountain

border from Pakistan stopped the spread of Indian power further to the heart of Eurasia. Central Asia remained Muslim.

The dominance and influence from the Southwest has more weight for the Central Asian cultural, economic and political development. Several Persian empires would conquer and reconquer various parts of Central Asia. Arab Islamic empires and the Hellenic Empire of Alexander the Great penetrated and dominated the region. Modern Iranian state has been projecting its influence on the region, especially along its border lines with former USSR republics of Central Asia. Caspian sea (lake) disputes still remain unresolved.

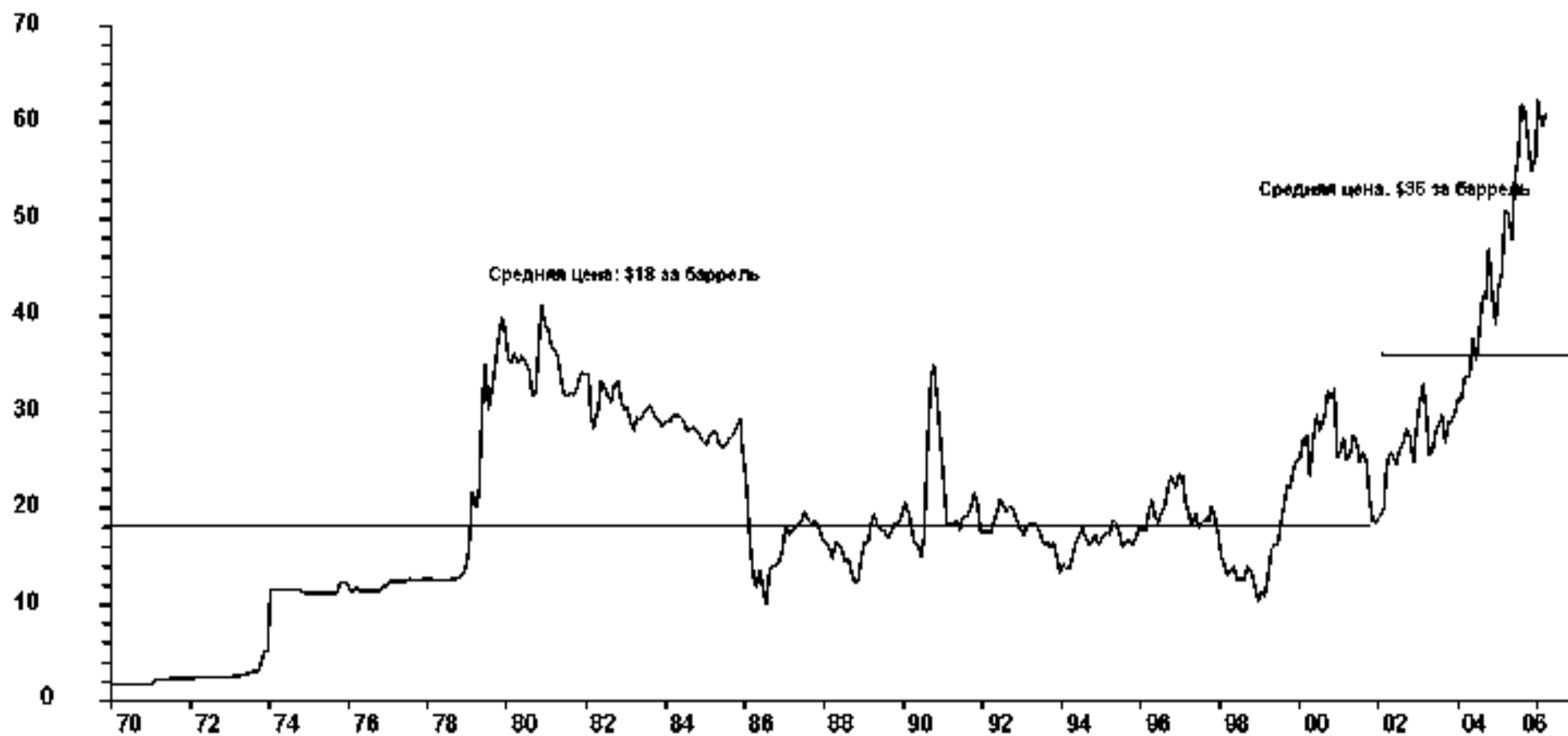
Mahan and MacKinder emphasized the strategic location of the region in their works. From Mahan perspective, the Asia was divided into three parts: the first, dominated by Russia, the second British dominated (later could be projected for the domination of the Western powers (the UK, the USA, Germany and Japan), and the third, that he called a “debated zone”. The zone included significant part of Central Asia such as, Tibet, Kashmir, Pakistan, Afghanistan, Uzbekistan, Turkmenistan, Tajikistan, Caucasus and Iran. In his geopolitical analysis Mahan projected these lands as potential battlefield or areas of conflict that though could be at first sight characterized as an ethnic could have a root of the bigger political game (the game between superpowers). The recent Afghan war could be seen as a vivid example to it. Moreover, there was a good historic fact, the Great Game between two Empires, the Russian and the British. The two empires had been rivals for about a century (1813 – 1907) for the dominance in the Eurasian landmass and access to the warmer sea ports. Britain certainly aimed to protect its colonial lands and access to the Indian ports from the Russian possible invasion from the North. Russians, at the same time aimed to pursue their expansion further southeastward. The both empires met in Afghanistan that was further divided between the two powers in 1907 by the Anglo-Russian Convention. Nevertheless, the history repeated itself in about 70 years, when the Soviet and the Western blocs met in the old territory again. The recent Afghan war proved that the location has not lost its strategic geopolitical importance for the bio-polar world of the Cold-War time. Even though, the bi-polarity of the world failed its existence after the collapse of the Soviet Union, the interest to the territories of Central Asia became multi-polar. It is no longer the war of ideology. The geopolitical perspective has been under the influence of the globalization of energy resources. The world’s recent increase in demand and consumption of energy resources has created a new dimension in geopolitics of the day. MacKinder’s and Mahan’s perspectives can be seen in a new light, the light of geopolitics of energy resources, where the oil factor

dominates. MacKinder in his Heartland theory defined the significance of the landlocked Central Asian territories: Caspian sea lands and Caucasus as well as Mongolian Russian territories to the east. Though, neither MacKinder nor Mahan knew about the world's future dependence on the "black gold", oil. And that the reason for various conflicts will lay within the dimension of energy resources and the battle for the energy resources.



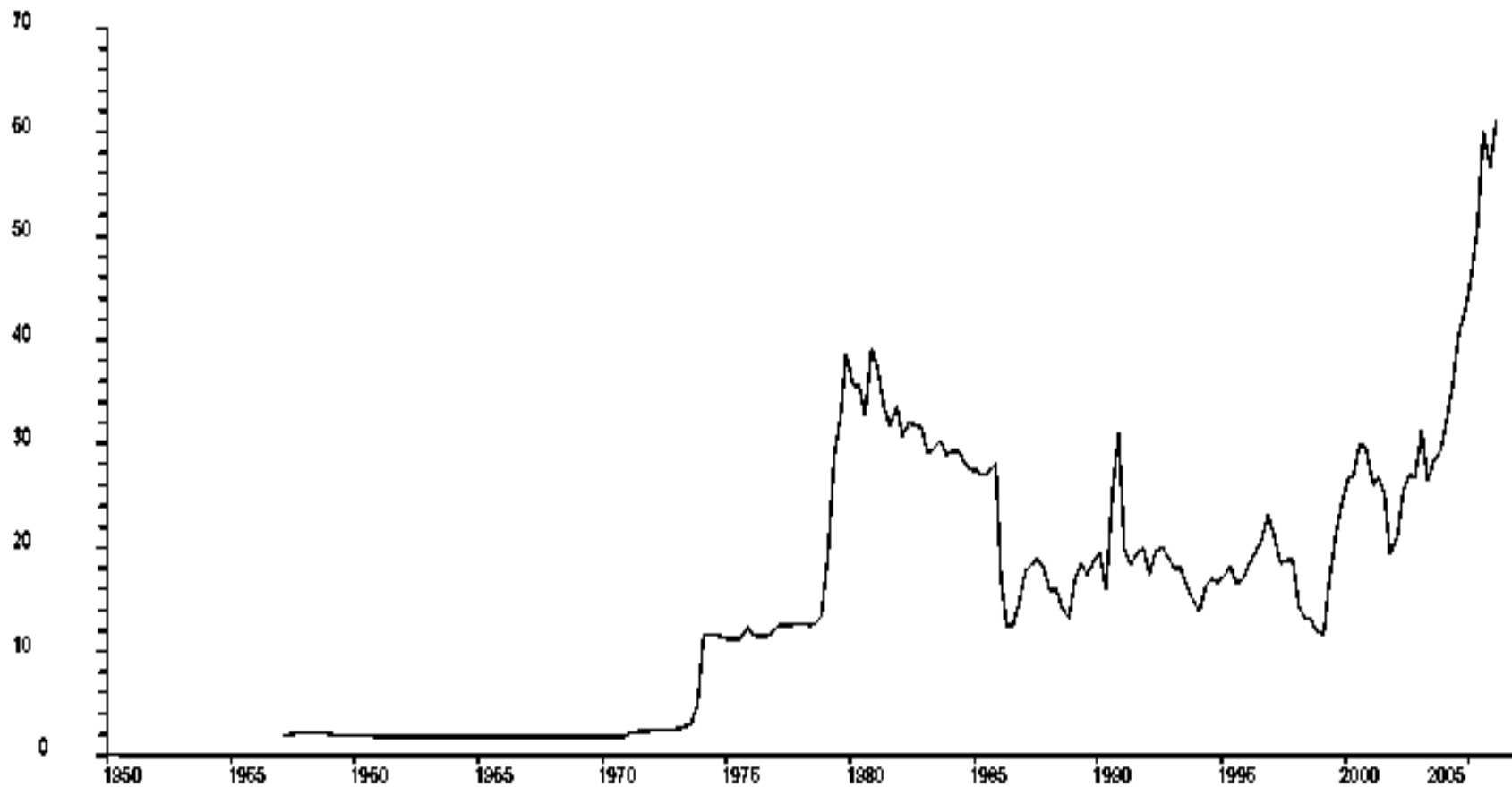
Source: <http://www.hri.org/MFA/thesis/winter98/20.html>

Oil fluctuations and average price (\$ a barrel)<sup>1</sup>



<sup>1</sup> Source: DATASTREAM: (on average price on barrel and

Oil price fluctuations in a long-term perspective<sup>1</sup>



<sup>1</sup> Source: DATASTREAM

Large Oil Exporters (raw and refined oil)<sup>1</sup>

	Daily Export (mln. Barrels )	% of the total export
Saudi Arabia	7,9	19,7
Russia	7,0	17,4
Norway	2,8	7,0
Iran	2,3	5,7
UAE	2,3	5,6
Kuwait	2,2	5,5
Venezuela	2,0	5,0
Mexico	1,7	4,2
Nigeria	1,7	4,2
Iraq	1,5	3,7
Lebanon	1,5	3,7
Angola	1,3	3,2
Algeria	1,2	3,0
Kazakhstan	1,1	2,7
Canada	0,8	2,0
Azerbaijan	0,8	2,0
Qatar	0,7	1,7
Oman	0,5	1,2
Argentina	0,4	1,0
Malaysia	0,3	0,8
Egypt	0,1	0,2
The UK	0,1	0,2
<b>Total Export</b>	<b>40,2</b>	<b>100,0</b>

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<sup>1</sup> Source: BP Statistical Review, Alfa-Bank research.

## Appendix 4.

### Large Oil Importers (raw and refined oil)<sup>1</sup>

	Daily Import (mln. Barrels)	% of the total import
The USA	13,9	36,7%
Japan	5,4	14,2%
China	3,5	9,2%
Germany	2,6	6,9%
Southern Korea	2,2	5,8%
France	2,0	5,3%
Italy	1,9	5,0%
India	1,8	4,7%
Spain	1,6	4,2%
Taiwan	0,9	2,4%
Thailand	0,7	1,8%
Southern Africa	0,4	1,1%
Australia	0,4	1,1%
The Ukraine	0,4	1,1%
Brazil	0,1	0,3%
Indonesia	0,1	0,3%
<b>Total Import</b>	<b>37,9</b>	<b>100,0%</b>

<sup>1</sup> Source: BP Statistical Review, OPEC, Alfa-Bank research

## Appendix 5.

### Large Oil Reserves<sup>1</sup>

Country	Raw Oil	% of the total volume
Saudi Arabia	263	22,1%
Iran	133	11,2%
Iraq	115	9,7%
Kuwait	99	8,3%
UAE	97	8,2%
Russia	77	6,5%
Venezuela	77	6,5%
Kazakhstan	40	3,3%
Lebanon	39	3,3%
Nigeria	35	3,0%
The USA	29	2,5%
China	17	1,4%
Canada	17	1,4%
Qatar	15	1,3%
Mexico	15	1,2%
Algeria	12	1,0%
Brazil	11	0,9%
Norway	10	0,8%
Angola	9	0,7%
Azerbaijan	7	0,6%
India	6	0,5%
Indonesia	5	0,4%
Malaysia	4	0,4%
Australia	4	0,3%
Egypt	4	0,3%
Vietnam	3	0,3%
Uzbekistan	1	0,1%
Turkmenistan	1	0,0%
Other	45,8	3,9%
<b>Total</b>	<b>1188,6</b>	<b>100,0%</b>
<b>OPEC, total</b>	<b>889,6</b>	<b>74,8%</b>
<b>Russia/CIS total</b>	<b>124,9</b>	<b>10,5%</b>

<sup>1</sup> Source: BP Statistical Review



## Appendix 6.

Annual Oil Demand and Supply in the world(mln. barrels a day)<sup>1</sup>

<b>Demand</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006Π</b>	<b>2007Π</b>	<b>2008Π</b>	<b>2009Π</b>	<b>2010Π</b>	<b>2015Π</b>
North America	20,8	21,1	21,7	21,6	22,2	22,7	23,1	23,9	24,0	24,1	24,0	24,5	25,4	25,4	25,6	25,7	25,9	26,0	26,1	26,4
Europe	14,2	14,2	14,3	14,6	14,9	15,0	15,3	15,1	15,1	15,1	15,3	15,4	15,6	15,6	15,6	15,6	15,7	15,8	15,9	16,1
Pacific Ocean	7,9	8,0	8,4	8,7	8,8	9,0	8,4	8,6	8,6	8,6	8,5	8,7	8,5	8,6	8,7	8,7	8,8	8,8	8,9	9,1
<b>OECD total</b>	<b>42,9</b>	<b>43,3</b>	<b>44,4</b>	<b>44,9</b>	<b>45,9</b>	<b>46,7</b>	<b>46,8</b>	<b>47,6</b>	<b>47,7</b>	<b>47,8</b>	<b>47,8</b>	<b>48,6</b>	<b>49,5</b>	<b>49,6</b>	<b>49,9</b>	<b>50,0</b>	<b>50,3</b>	<b>50,6</b>	<b>50,9</b>	<b>51,6</b>
CIS	7,1	5,9	4,9	4,8	4,4	3,8	3,7	3,5	3,6	3,7	3,7	3,6	3,8	3,8	3,8	3,9	3,9	4,0	4,1	4,5
China	2,7	3,1	3,1	3,3	3,7	4,2	4,2	4,5	4,8	4,5	4,7	5,6	6,4	6,6	6,9	7,2	7,6	7,9	8,2	10,0
The rest of Asia	4,8	5,2	5,5	6,0	6,4	6,7	6,7	7,1	7,3	7,4	7,6	8,1	8,6	8,8	8,8	8,9	9,0	9,2	9,5	11,0
Latin America	3,7	3,9	4,1	4,3	4,5	4,7	4,8	4,8	4,9	4,9	4,9	4,7	4,9	5,0	5,1	5,3	5,4	5,5	5,7	6,4
Africa, Middle East, other countries	6,3	6,5	6,7	6,8	7,1	7,1	7,3	7,6	7,8	7,9	8,1	8,7	9,3	9,7	10,2	10,4	10,6	10,8	11,0	12,2
<b>States members of OECD, total</b>	<b>24,6</b>	<b>24,6</b>	<b>24,3</b>	<b>25,2</b>	<b>26,1</b>	<b>26,5</b>	<b>26,7</b>	<b>27,5</b>	<b>28,4</b>	<b>28,4</b>	<b>29,0</b>	<b>30,7</b>	<b>33,0</b>	<b>33,9</b>	<b>34,8</b>	<b>35,7</b>	<b>36,5</b>	<b>37,4</b>	<b>38,5</b>	<b>44,1</b>
<b>Total demand volume</b>	<b>67,5</b>	<b>67,9</b>	<b>68,7</b>	<b>70,1</b>	<b>72,0</b>	<b>73,2</b>	<b>73,5</b>	<b>75,1</b>	<b>76,1</b>	<b>76,2</b>	<b>76,8</b>	<b>79,3</b>	<b>82,5</b>	<b>83,5</b>	<b>84,7</b>	<b>85,7</b>	<b>86,9</b>	<b>88,0</b>	<b>89,4</b>	<b>95,7</b>
<b>Supply</b>																				
North America	14,2	14,1	14,1	14,1	14,3	14,6	14,5	14,0	14,3	14,3	14,4	14,6	14,6	14,1	14,3	14,5	14,6	14,6	14,5	14,1
Europe	4,9	5,2	6,1	6,4	6,7	6,7	6,7	6,8	6,8	6,8	6,7	6,3	6,1	5,6	5,4	5,4	5,3	5,2	5,0	4,3

<sup>1</sup> Source: BP, OPEC, Alfa-Bank estimations

Pacific Ocean Basin	0,7	0,7	0,6	0,6	0,7	0,7	0,7	0,7	0,9	0,9	0,8	0,7	0,6	0,6	0,6	0,7	0,7	0,7	0,7	0,7
<b>OECD Total</b>	<b>19,8</b>	<b>20,0</b>	<b>20,8</b>	<b>21,1</b>	<b>21,7</b>	<b>22,0</b>	<b>21,9</b>	<b>21,5</b>	<b>22,0</b>	<b>22,0</b>	<b>21,9</b>	<b>21,6</b>	<b>21,3</b>	<b>20,3</b>	<b>20,3</b>	<b>20,6</b>	<b>20,6</b>	<b>20,5</b>	<b>20,2</b>	<b>19,1</b>
CIS	8,9	8,0	7,3	7,1	7,1	7,2	7,3	7,5	7,9	7,9	8,6	10,3	11,2	11,6	12,0	12,5	13,0	13,5	14,0	16,6
China	2,8	2,9	2,8	3,0	3,1	3,2	3,2	3,2	3,2	3,2	3,3	3,4	3,5	3,6	3,7	3,7	3,7	3,8	3,9	4,3
The rest of Asia	1,8	1,8	2,0	2,2	2,1	2,2	2,2	2,2	2,3	2,3	2,3	2,5	2,8	2,7	2,8	2,8	2,9	3,0	3,1	3,6
Latin America	2,2	2,6	2,8	3,1	3,3	3,4	3,7	3,8	3,8	3,8	3,8	4,0	4,1	4,3	4,5	4,6	4,7	4,8	4,9	5,4
Africa, Middle East, other countries	3,7	4,1	4,0	4,7	4,7	4,8	4,8	5,1	5,2	5,1	5,2	5,3	5,7	5,6	6,0	6,0	6,0	6,0	6,0	6,0
<b>States, not members of OECD, total</b>	<b>19,4</b>	<b>19,4</b>	<b>18,9</b>	<b>20,1</b>	<b>20,3</b>	<b>20,8</b>	<b>21,2</b>	<b>21,8</b>	<b>22,4</b>	<b>22,3</b>	<b>23,2</b>	<b>25,5</b>	<b>27,3</b>	<b>27,8</b>	<b>29,0</b>	<b>29,6</b>	<b>30,3</b>	<b>31,1</b>	<b>31,9</b>	<b>35,9</b>
Process gains	1,5	1,4	1,4	1,5	1,5	1,6	1,6	1,7	1,7	1,7	1,8	1,8	1,8	1,8	1,9	1,9	1,9	1,9	1,9	1,9
<b>Supply from Nonmember-states of OPEC, total</b>	<b>40,7</b>	<b>40,8</b>	<b>41,1</b>	<b>42,7</b>	<b>43,5</b>	<b>44,4</b>	<b>44,7</b>	<b>45,0</b>	<b>46,1</b>	<b>46,0</b>	<b>46,9</b>	<b>48,9</b>	<b>50,4</b>	<b>49,9</b>	<b>51,2</b>	<b>52,1</b>	<b>52,8</b>	<b>53,5</b>	<b>54,0</b>	<b>57,0</b>
<b>Oil Demand OPEC</b>	<b>26,8</b>	<b>27,1</b>	<b>27,6</b>	<b>27,4</b>	<b>28,5</b>	<b>28,8</b>	<b>28,8</b>	<b>30,1</b>	<b>30,0</b>	<b>30,2</b>	<b>29,9</b>	<b>30,4</b>	<b>32,1</b>	<b>33,6</b>	<b>33,5</b>	<b>33,6</b>	<b>34,1</b>	<b>34,5</b>	<b>35,4</b>	<b>38,8</b>
SPG							2,8	2,8	2,9	3,4	3,5	3,8	4,1		4,4	4,4	4,5	4,5	4,5	4,5
Stored reserves							-1,2	0,4	0,5	0,5	0,2	0,7	0,5		0,5	0,4	0,4	0,4	0,4	0,4
<b>Raw Oil demand OPEC</b>					<b>26,1</b>	<b>27,6</b>	<b>27,8</b>	<b>27,0</b>	<b>27,1</b>	<b>29,0</b>	<b>30,0</b>				<b>29,6</b>	<b>29,6</b>	<b>30,0</b>	<b>30,4</b>	<b>31,3</b>	<b>34,7</b>

## Appendix 7.

World Oil Demand and Supply per annum , annual change in ,%<sup>1</sup>

Demand	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 Π	2007 Π	2008 Π	2009 Π	2010 Π	2015 Π
North America	1,5	1,4	2,8	-0,5	2,8	2,3	1,8	3,5	0,4	0,4	-0,4	2,1	3,7	0	8	0,5	0,50	0,50	0,5	0,3
Europe	1,4	0	0,7	2,1	2,1	0,7	2	-1,3	0	0	1,3	0,7	1,3	0	0	0	0,60	0,60	0,6	0,3
Pacific Ocean Basin	5,3	1,3	5	3,6	1,1	2,3	-6,7	2,4	0	0	-1,2	2,4	-2,3	1,2	1	0,2	1,00	0,10	0,6	0,5
OECD total	2,1	0,9	2,5	1,1	2,2	1,7	0,2	1,7	0,2	0,2	0	1,7	1,9	0,2	0,6	0,3	0,6	0,50	0,6	0,3
CIS	-12,3	-16,9	-16,9	-2	-8,3	-13,6	-2,6	-5,4	2,9	2,8	0	-2,7	5,6	0	0	2,6	0,00	2,60	2,5	2
China	8	14,8	0	6,5	12,1	13,5	0	7,1	6,7	-6,3	4,4	19,1	14,3	3,1	4,5	4,3	6	3,50	3,8	4
The rest of Asia	6,7	8,3	5,8	9,1	6,7	4,7	0	6	2,8	1,4	2,7	6,6	6,2	2,3	0	1,1	1,1	2,20	3,3	3
Latin America	0	5,4	5,1	4,9	4,7	4,4	2,1	0	2,1	0	0	-4,1	4,3	2	2,5	2,5	2,5	2,50	2,5	2,5
Africa, Middle East, other countries	1,6	3,2	1,5	4,4	0	2,8	4,1	2,6	1,3	2,5	7,4	6,9	4,3	5,2	2	2	2	2,00	2	
States, Non-members of OECD, total	-1,6	0	-1,2	3,7	3,6	1,5	0,8	3	3,3	0	2,1	5,9	7,5	2,7	2,7	2,4	2,4	2,50	2,8	2,7
Total Demand	0,7	0,6	1,2	2	2,7	1,7	0,4	2,2	1,3	0,1	0,8	3,3	4	1,2	1,5	1,1	1,4	1,30	1,5	1,4
Supply																				
North America	-0,7	-0,7	0	0	1,4	2,1	-0,7	-3,4	2,1	0	0,7	1,4	0	-3,4	1,4	1,4	0,70	0,00	-0,7	-0,5
Europe	6,5	6,1	17,3	4,9	4,7	0	0	1,5	0	0	-1,5	-6	-3,2	-8,2	-3,6	0	-1,9	-1,90	-3,8	-3

<sup>1</sup> Source: BP, OPEC, Alfa-Bank estimations

Pacific Ocean Basin	0	0	-14,3	0	16,7	0	0	0	28,6	0	-11,1	-12,5	-14,3	0	0	16,7	0,00	0,00	0	0
OECD, Total	0,0	1	1	1,4	2,8	1,4	-0,5	-1,8	2,3	0	-0,5	-1,4	-1,4	-4,7	0	1,5	0	-0,5	-1,5	-1,1
CIS	-14,4	-10,1	-8,8	-2,7	0	1,4	1,4	2,7	5,3	0	8,9	19,8	8,7	3,6	3,4	4,2	4,00	3,80	3,7	3,5
China	0	3,6	-3,4	7,1	3,3	3,2	0	0	0	0	3,1	3	2,9	2,9	2,8	0	0	2,7	2,6	2
The rest of Asia	5,9	0	11,1	10	-4,5	4,8	0	0	4,5	0	0	8,7	12	-3,6	3,7	0	3,60	3,40	3,3	3
Latina America	0	18,2	7,7	10,7	6,5	3	8,8	2,7	0	0	0	5,3	2,5	4,9	4,7	2,2	2,2	2,10	2,1	2
Africa, Middle East, other countries	2,8	10,8	-2,4	17,5	0	2,1	0	6,3	2	-1,9	2	1,9	7,5	-1,8	7,1	0	0	0,00	0	0
Non-member states of OECD, BCERO	-6,3	0	-2,6	6,3	1	2,5	1,9	2,8	2,8	-0,4	4	9,9	7,1	1,8	4,3	2,1	2,4	2,60	2,6	2,4
Process gains	15,4	-6,7	0	7,1	0,0	6,7	0,0	6,2	0,0	0,0	5,9	0	0	0	5,6	0,0	0,0	0,0	0,0	0
Supply to the OPEC non-member states, total	-2,2	0,2	0,7	3,9	1,9	2,1	0,7	0,7	2,4	-0,2	2	4,3	3,1	-1	2,6	1,8	1,3	1,3	0,9	1,1
OPEC Oil Demand	5,5	1,1	1,8	-0,7	4	1,1	0	4,5	-0,3	0,7	-1	1,7	5,6	4,7	-0,3	0,2	1,5	1,30	2,4	1,8
OPEC Raw Oil Demand									5,7	0,7	-2,9	0,4	7	3,4	-1,3	-0,1	1,3	1,5	2,7	2,0

COMMENTS:

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