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By
MAUREEN CRANDALL

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### Central Asia and Caucasus Energy

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Emerging regional energy security issues: Central Asia & the Caucasus
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Maureen S. Crandall, PhD
Professor of Economics
Industrial College of the Armed Forces
National Defense University
Washington, DC

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The Caspian Sea and Its Neighbors – Defining the Energy Context

• Five littoral energy-producing countries: Russia, Azerbaijan, Iran, Turkmenistan, and Kazakhstan
  ➢ Uzbekistan: secondary, doubly-landlocked energy producer
  ➢ Georgia: key transit country, now and perhaps in future, if Nabucco project moves forward

• Tensions exist...but markets trump militarism
  ➢ Energy issues unlikely to lead to conflict between states
  ➢ Oil is a world market, natural gas fast becoming one, market forces rule
  ➢ Weak price environment to 2012 and perhaps beyond
Existing Energy Issues
Unlikely to Lead to Conflict

- **Caspian Seabed delimitation elusive**
  - Median-line division or equal percentages?
  - Azeri-Turkmen-Iran competing claims, but moving toward joint development

- **Russian opposition to TC pipelines**
  - Does Moscow have an effective threat to exercise/prevent construction?

- **World’s most polluted body of water**
  - Dealing with externalities: how share costs and benefits of treating?
  - Collaborative efforts difficult
Caspian Sea Delimitation Alternatives

Condominium

Median Line

Joint Sovereignty

Division

20 Miles - Territorial
20 Miles - EEZ (Economic Exclusive Zone)

Azerbaijan’s Version
Turkmenistan’s Version
Iran’s Version

1. ACG fields  2. Kyapaz-Serdar  3. Alov
Existing Energy Issues – 2

• Turkmenistan – shut out of Russian gas market, seeking Eastern and Western buyers, as well as greater sales to Iran

• Uzbekistan – most populated, autocratic but weak, inward-looking
  ➢ Not perceived as looking to dominate region
  ➢ Decaying Soviet-legacy energy infrastructure
  ➢ Close ties to Russia
Existing Energy Issues – 3

- Kazakhstan
  - Pushing foreign energy consortia to deliver
  - Stiffer commercial terms
  - Not interested in TC gas pipeline
  - Pursuing KCTS oil shuttle tanker system
  - Dependent on CPC oil pipeline through Russia to Black Sea and Bosporus
  - Oil pipeline to China underway – permits choice of sales to East or West
Kazakh Oil Tanker Shuttles – the Future

http://www.lib.utexas.edu/maps/commonwealth/commonwealth_ref01.pdf#search=%22aktau%20baku%20map%22
Kazakhstan Oil Pipeline to China
Existing Energy Issues – 4

• Russia
  ➢ Wooing Central Asian gas with proposed Pre-Caspian pipeline; uncertain timing of Yamal development for future EU sales
  ➢ Chafes at existing private CPC oil pipeline
  ➢ Formerly sole buyer of Central Asian gas and oil, but now new role of China as purchaser
  ➢ War with Georgia in 2008 NOT over energy matters – avoidance of damage to BTC or gas pipelines
    • Hostilities could happen again
CPC Oil Pipeline to the West
Existing Energy Issues – 5

• Iran
  ➢ Occupied with other issues
  ➢ Potential major gas exporter – political differences with West, decaying infrastructure, pains of sanctions
  ➢ Still holding out for 20% of Caspian seabed
  ➢ Buying more Turkmen gas
Existing Energy Issues – 6

• **Azerbaijan**
  - Perennial risk of conflict over N-K, but not for energy reasons; AZ military not equal to Armenian military
  - BTC oil pipeline (2006) avoids N-K – could be impacted by conflict

• **Georgia**
  - Russia seen as bully for Tbilisi’s western leanings – secessionist provinces and Georgian loss of territorial integrity, but frictions not over energy
BTC Pipeline Route
China and India

- Rising energy demand and growing GDP
- Their companies active in the region
- Involved in low-risk fields, selling on world market, or selling to China through new/proposed oil/gas pipelines
- Host governments happy to have them as source of revenues
- China/India activities enhance world energy security
Governance

• Central Asian and Caucasus “republics” – no democratic roots
• Exception may be Azerbaijan – sole EITI compliant country; attempt to shed light on where funds arise and how spent (PWYP)
• Riding/monetizing the oil & gas wave
• Western organizations give very poor ratings
Future Maturity and Accountability?

- Lower energy prices hurt leadership; high prices enhance ability to act as “rentier state”
  - Revenues accrue to state and are used to bribe/pay off elites and clans
- West cannot dictate forms of governance
- Perhaps at least another generation necessary for first signs of genuine democracy and accountability/transparency
- Authoritarian rentier states in this region unlikely to engage in energy conflict
  - Shared fields increasingly agreed for (or moving toward) joint development
Conclusion

• Conflict unlikely due to energy issues
  ➢ Other issues could result in internal or external conflict, thus reducing future energy investment flows

• Energy an important source of income
  ➢ Goal to monetize resources rapidly on world markets – weak price environment to 2012
  ➢ Cooperation on cross-border fields
  ➢ Unresolved delimitation of Caspian Sea has not affected project development (exception is TC pipelines)
  ➢ China active developer – adds to energy security

• Serious governance issues

• Pollution of Sea yet to be addressed