

**Lecture 11: Energy Battlegrounds – Central Asia**

The prize / what is at stake in central Asia

- What is central Asia
  - The “Stans”
    - Kazakhstan
    - Uzbekistan
    - Azerbaijan
    - Turkmenistan
  - Iran
  - Russia
- Proven reserves in the Caspian Basin
  - 32-50 Billion Barrels in proven oil reserves
    - Russia and Iran are left out of the calculation
    - 4% of the worlds proved reserves
- 6 major hydrocarbon bases in the basin itself
- Uzbekistan is a unique state
  - It is “doubly landlocked”
    - It is landlocked, and are all of the countries surrounding it
  - It’s not really in the Caspian Basin as well
- For oil
  - Kazakhstan is the biggest holder in the region
    - 39 Billion Barrels in proven reserves
  - Azerbaijan is second
    - 7 Billion Barrels
  - Uzbekistan and Turkmenistan
    - ~1 Billion Barrels each
- For Gas
  - 232 TCF of proven gas reserves in the Caspian Region
  - Turkmenistan is biggest holder of gas
    - 71-101 Trillion Cubic Feet of proven reserves
    - 11<sup>th</sup>-14<sup>th</sup> largest in the world
      - could potentially be the 5<sup>th</sup> largest reserve worldwide if they find it all
    - “Bizarre place”
      - People don’t seem to think that the government has any idea how much they actually have there
  - Uzbekistan
    - 66 TCF
  - Kazakhstan
    - 65 TCF

In the 1990s there was a lot of hype over huge oil reserves in central Asia

- US State Department released a study that said that there was potentially 200 Billion Barrels of oil in Central Asia
  - Turns out that it is not true
  - Caused lots of Congressmen to get hot and bothered about ending our relationships with the Middle Eastern Supplier states
    - This wouldn’t have been a good idea anyway because just Saudia Arabia, Iran, and Iraq have upwards of 500 Billion Barrels combined, which is still a significant amount of oil that can’t be ignored

Problems with Central Asia oil and gas exporting

- Because many of these Central Asian states are double landlocked, the issue of transportation becomes particularly difficult
  - Pipelines would have to be put in place to go everywhere
  - Since Central Asian gas is close to many important markets – Europe, East Asia, Russia, and Iran, this is where resource nationalism and resource mercantilism come together in spades

After the fall of the Soviet Union, the Central Asian states were essentially starting from scratch vis-à-vis the oil industry

- Azerbaijan was essentially the birthplace for oil industry in Russia and then the Soviet Union
- Shifted to other Central Asian states, and then again to Siberia

In natural gas, Turkmenistan played an important role in getting the Soviet Gas industry started, but then the industry shifted to Siberia

- After the fall of the Soviet Union, there was some infrastructure in place in many Central Asian countries, but it was not even close to being developed fully

At the fall of the Soviet Union, Western investors were essentially drooling over the idea at exploiting these newly formed countries for their natural resources basically because there was no real government infrastructure in place to deal with foreign investment in oil production

- Chevron was the first into Turkmenistan
- Other flocked to Azerbaijan and Uzbekistan

There were some catches, though

- As governments go through this learning curve on how valuable these natural resources are and how they need to regulate the industries, they also are figuring out how to pipe the stuff out of their countries
  - Before these countries came into their own, the Soviets were the only ones who had been building pipelines, and all of those pipelines went directly to what was now Russia, and from Russia, the pipelines went to Europe
    - Not export infrastructure into East Asia
    - This gave the Russians a huge advantage in the battle for influence in the region vis-à-vis how this industry was going to be developed

There was going to have to be some external player in place to help these Central Asian countries to develop new infrastructure to export these resources out of the region. Unfortunately, Russia was going to have a huge influence on how this was going to happen

Idea #1 - Caspian Pipeline Consortium (CPC)

- Created to export Kazakh oil out, giving Russia a huge say in how this happened, but financed by Western Energy Companies
  - Idea was to wean the Russians off of Central Asia
  - Russian government got a 24% share in the stake, the largest stake of everyone
  - Chevron got 15%, etc.
- Problems
  - Strategic problem, in that there was going to be a limit to Russian tolerance for the amount of oil that would be flowing out of the region and not under their control
  - Within the CPC, because it was built by many state of the art companies, it used the latest technologies in the new infrastructure

- Allowed for quality bank system, separation of the different grades of oil when it came to the end of the pipeline
    - The Russians always blended their grades of oil together when it came to port, called Transneft
    - The Russians began losing money to the CPC, because the CPC was producing a better product than the Russians
    - The Russian didn't like this, and terminated expansion of the CPC pipeline in the Black Sea
  - Bottom-line: CPC did not provide a model for how to export oil from Central Asia
- Idea #2 – Involve Iran
- Run pipelines down to Tehran, and join those pipelines with existing Iranian pipelines to run to the ports
    - Economically it made sense
  - US-Iranian issues became strained during the mid 1990s, as Clinton Administration cracked down on US investment into Iran through sanctions, etc.
  - For political reasons, Iranian involvement was squelched
- Idea #3 - East-West Energy Transit Corridor
- Multiple pipelines policy
    - We want to encourage development of new infrastructure that doesn't rely on Russia to export Central Asian energy
  - Whole idea was to build alternative pipelines that would not give Russia any kind of participatory role or crossover into Russian or Iranian territory. Bring Central Asian energy into European energy markets
    - BTC pipeline and the SCP pipeline
      - BTC for oil, and SCP for gas
      - Would run from Azerbaijan to Europe
  - Differences during the Bush Administration that had negative effects
    - Rise of Putin
    - Administration's democratization efforts in the region
      - Really turned off these countries to US involvement, and also paved the way for Putin to come in and push heavily for removal of US troops and influence in the region
- Idea #4 – Pipelines to China
- There is a pipeline from Kazakhstan to China currently
  - China has been trying very hard to get into the region
  - It remains to be seen how successfully any sort of non-Russian initiatives in the region will be
- Basically, were are left where we started
- Russia's infrastructural legacy has continually given Russia the advantage in the region, and they most likely will retain the advantage in the future
  - Turkmenistan seems to be a wild card in the region, but unless the US makes this a significantly higher priority that it is right now, they will probably not make a whole lot of headway on pipelines and partnerships
- According to Leverett, we are probably not going to be able to compete on the same level as Russia and China for the resources in Central Asia
- If we want to get into Central Asia, we would have to strike a deal with Russia
  - We can't weaken their position, and instead we need to work with them
  - If we don't strike that deal with Russia, China probably will

If we really want to undermine Russia's position in Central Asia, we should help Iran develop the ability to bring their energy resources to the same markets as the Central Asian states

- Obviously that's not possible given the current political situation in Washington
- If we don't work with Iran, it looks as though Russia might
  - Russia seems like they are currently positioning themselves to manage Iran's entry into the global gas marketplace
  - Iran "can't wait on the West forever"
  - If Russia can effectively join with Iran to bring Iranian gas to European markets, Russia will effectively control the international gas markets for "as far as the eye can see"