



Outcomes and strategies in the 'New Great Game': China and the Caspian states emerge as winners



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ABSTRACT

The decades-long struggle for control over oil and natural gas resources, infrastructure and influence in the Caspian region has been referred to as the 'New Great Game', with Europe, China, the US and Russia typically cited as the main combatants. We explore recent developments and aver that, if present trends continue, Europe will have access to Azerbaijan's resources, China to those of the East Caspian states, the US will stay commercially and strategically engaged, and Russia's influence will (continue to) diminish. How did this unexpected turn of events arise? We examine China's dominance and argue that the foreign policies of the US and Russia – within the region and even further abroad – have inadvertently driven the East Caspian states and China towards each other. Wary of potential maritime chokepoints in the Pacific, China feels strongly compelled to shore up resources and influence in the Caspian region. In part because of Russia's intransigence regarding the Caspian Sea's status, the East Caspian states – faced with constrained access to the West – have turned to China as an alternative market and counterbalance to Russia.

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1. Introduction

With the collapse of the Soviet Union, new sources of oil and gas in the Caspian basin were suddenly 'accessible' for external powers. The ensuing decades-long struggle for control over these hydrocarbon resources, transit routes, and influence has been referred to as the 'New Great Game'¹ (Edwards, 2003; Smith, 1996; Swanström, 2005). The initial

combatants were Russia and the United States (US), but over the years, other actors, such as the European Union (EU) and China, have entered the fray. China has quickly become the leading trade partner for both Kazakhstan and Turkmenistan; and, recently, several observers claimed that China is winning the struggle for influence against other major powers (Boonstra & Laruelle, 2013; Genté, 2014; Olcott, 2013; Standish, 2014). President Xi Jinping's visit to the region in September 2013, in which energy agreements worth over US\$60 billion were signed, has even been described as a 'victory lap' (Olcott, 2013: 1).

If present trends continue, it appears that the EU will have access to a smaller than hoped for portion of Azerbaijan's resources, the US will be distracted but stay commercially engaged, Russia's influence will continue to wane, while China will be the dominant energy power, particularly in the East Caspian states. How did this unexpected turn of events

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¹ The 'New Great Game' often refers to Central Asia. However, for the purposes of our article and of this special issue, we focus on a Central Asian sub-region comprising the energy-producing Caspian states: Azerbaijan, Kazakhstan, and Turkmenistan. For ease of language, references to the 'Caspian region' denote these three states.

arise? What explains China's intensified interest in the region and why have regional leaders either actively turned to China or allowed it to gain dominance?

Our first task is to address these questions. We posit that the behaviours of Russia, the US, and the EU, both within the region and, in the case of the US, further abroad, have inadvertently driven the Caspian states and China towards one another. For example, the main thrust of Russian foreign policy towards these former Soviet republics has been integration, or, as it seems to many in the Caspian region, re-integration. Russia has attempted to both assert its dominance and keep these states insulated from the interests and influence of other major powers. The Caspian states, however, seek autonomy and have thus, for the most part, welcomed China as a new investor and as a counterweight to Russia. The EU and the US have also pushed policies that have aggravated regional leaders. Meanwhile, China is disturbed by the US government's military presence and activities in the Pacific. With regards to energy, China is particularly worried about US naval control over the Sea Lines of Communication² in the Strait of Malacca, through which China receives significant imports of both oil and natural gas. China thus seeks energy resources it can transport over land – a need the Caspian region neatly fulfils (Smith Stegen, 2015).

The great power politics of the region have captured the attention of many scholars. We believe, however, that the agency of the regional actors should not be ignored. These states have been more than mere pawns on someone else's chessboard. Thus, our second task is to examine the 'multi-vector' strategies pursued by Kazakhstan, Turkmenistan, and Azerbaijan, as they navigate the manoeuvrings of the larger states. Initially, these states attempted to appease and balance the larger states. However, we argue that the behaviour of the Caspian states has changed during the past decade and that, with regards to energy, these states are no longer pursuing a multi-vector approach. Rather, the authoritarian rulers of these states presently engage in strategies to (re-) claim control over their energy assets and transit routes in order to attain greater autonomy and maximize rents.

The article proceeds as follows: we first provide an introduction to the energy resources and infrastructure of the three Caspian region energy producers, Kazakhstan, Turkmenistan, and Azerbaijan, and then provide background information on the New Great Game and on the multi-vector concept. We then present the general approach and energy concerns of each major external actor as well as the major events, agreements and milestones. Next, we focus on the energy relations between each major actor and each of the energy-producing Caspian states, resulting in twelve mini case studies that capture the contours of the relationships. We acknowledge that energy is only one aspect of the complex web of relations between and among these states. We mention security and other non-energy matters when we believe they have had a direct influence on energy relations. For the most part, we approach our analysis from a 'state-as-actor' perspective;

however, we also acknowledge that these states are not unitary actors.³ We have thus included significant countervailing voices, particularly when they seem to have constrained greater cooperation and/or deeper energy relations. We conclude by suggesting several ways of understanding the shift away from multi-vectorism in energy matters and what this change could mean for the future.

2. Background: Caspian resources and infrastructure

The Caspian region contains significant oil and gas reserves and is one of the world's oldest production areas. As our article focuses on Kazakhstan, Azerbaijan, and Turkmenistan, we single out their data here. As indicated in Table 1, by the end of 2013, the proven oil reserves of the three countries, combined, were calculated at 5 billion tonnes. Of the three countries, most of the oil reserves are located in Kazakhstan (78.0%) and Azerbaijan (20.0%), with Turkmenistan possessing far less (2.0%). The largest amount of oil produced comes from onshore fields. Offshore fields, however, hold the highest potential for future production, but remain underdeveloped.

The gas deposits of these three countries are also substantial. Turkmenistan has the lion's share, with 17.5 trillion cubic metres in reserves, more than 9% of the world's total reserves. Kazakhstan and Azerbaijan have relatively far less reserves, but sufficient amounts to be important exporters, particularly for, respectively, China and the EU. In sum, all three producers hold 2.25% of world total proven oil reserves and 10.7% of world total proven gas reserves, as Table 1 illustrates.

During the Soviet era (1922–1991), the region's pipeline infrastructure was tailored to Soviet supply needs, with major pipeline arteries feeding north to Russia. Exploration and production in the Caspian basin was – and still is – considered technically challenging and in the late 1980s the Soviet Union brought in foreign expertise in the form of Chevron, a US international oil company (IOC). When the Soviet Union collapsed in 1991, the three Caspian states assumed ownership of the reserves within their borders and western IOCs, piqued by the prospect of new non-OPEC supplies, flocked to the region. Initially, the main geopolitical tensions existed between the US and Russia. Over the next twenty years, however, Caspian resources have attracted widespread attention from numerous states, including the EU, India, Turkey, Japan, South Korea, and China. Thus, the Caspian region has not only become an increasingly important source of global energy production, but also a centre of overlapping economic and geopolitical interests. Competition between states over resources led observers to call the situation the New Great Game.

3. The struggle for the Caspian's resources: the New Great Game

While it is undisputed that rivalry exists between major powers over the Caspian's resources, scholars differ in their

² Sea Lines of Corresponding author. are key maritime passages that facilitate large volumes of shipping traffic and hosting the transportation of key maritime trades such as crude oil.

³ For an approach that examines the role of domestic actors in the region, see Heinrich & Pleines, 2012.

Table 1
Oil and gas reserves of Azerbaijan, Kazakhstan and Turkmenistan (end of 2013).

Country	Proven oil reserves (million tonnes)	Share of world total (in %)	Proven gas reserves (trillion cubic metres)	Share of world total (in %)
Azerbaijan	1000	0.4%	0.9	0.5%
Kazakhstan	3900	1.8%	1.5	0.8%
Turkmenistan	100	less than 0.05%	17.5	9.4%
Total	5000	2.25%	19.9	10.7%

Source: BP, 2014: 6, 20.

interpretations of the New Great Game. Four main viewpoints obtain. First, many scholars view the rivalry as primarily between ‘great power’ or ‘larger power’ states, particularly, the US, Russia, and China. Some of these accounts also include other large powers, such as the EU or India (Atal, 2005; Kim & Indeo, 2013; Klare, 2004; Kurečić, 2010; Olcott, 2005; Swanström, 2005; Weitz, 2008). A second reading is that the region is not the site of one game, but of several ‘Small Games’ played between the three great powers (US, Russia, and China), and other powers, such as the EU, India, Japan, and South Korea (Laruelle, Huchet, Peyrouse, & Balci, 2010; Laruelle & Peyrouse, 2013). Other scholars argue, however, that power dynamics in the Caspian resemble neither a Great Game nor Small Games, but rather a balance-of-power struggle twinned with the rising might of regional actors. Great powers therefore cannot impose their rules on the Caspian countries unilaterally – not only can regional actors force the great powers to compete with one another, but can limit outside influence (Blank, 2012; Kubicek, 2013; Pradetto, 2012). Fourth, some scholars argue that one should not restrict the powers in the region to states, but should also include international organizations and multinational corporations (Molchanov & Yevdokimov, 2004).

Our take on the matter is that all of these views offer useful insights. In the early years, the situation did resemble a Great Game between the US and Russia. However, as new energy-hungry states, such as the EU and China, became interested, the possibility of sub-games between different constellations of players emerged. As the commercial interests of non-state controlled companies can be quite distinct from the strategic interests of their home governments, we agree that the activities and influence of some international companies should not be overlooked. Last but not least, the newly formed Caspian states have become strategic actors themselves. Although these various perspectives differ with regard to the types and number of players and games they consider, all recognize the sharp competition and geopolitical manoeuvring that takes place in the region. Moreover, none assert that all actors are equally powerful or that all interested parties will obtain their objectives. Some states will be winners, and some states will be losers. Thus, which states have had the power to attain greater access to resources and where have they been able to gain influence?

On the heels of recent events, it appears that ‘China is emerging as the big winner’ (Olcott, 2013: 1; see also

Boonstra & Laruelle, 2013; Genté, 2014; Standish, 2014). Although China was not one of the original ‘players’ in the geopolitical tussling over Caspian resources, it has quickly amassed numerous energy agreements worth tens of billions of dollars and has become the leading trade partner for both Kazakhstan and Turkmenistan (Smith Stegen, 2015). How did this outcome arise? We think the answer, in large part, can be found in the behaviour of several of the larger states and their interactions with the regional states. In the case studies, we detail our argument as to how different forces combined to produce the surprising ‘dark horse winner’ outcome. First, however, we examine the approaches and strategies of the Caspian states themselves.

4. The multi-vector approach

The behaviour of the Caspian states – vis-à-vis the major powers engaged in the region – has been described by analysts as well as by regional leaders themselves as a multi-vector approach. The term has several connotations. It has been used, for example, to convey the neutrality of the Caspian states (particularly with regard to Turkmenistan: Pomfret, 2008; Rinna, 2013). An implicit understanding of many accounts of the multi-vector approach is that the Caspian states, as they are surrounded by powerful neighbours, pursue foreign policies that, among other objectives, seek to avoid offending any of the larger states.

The term is also employed to describe how the Caspian states ‘balance’ the interests of the various great states and, even more specifically, use their relations with various larger states to balance and counterbalance other large states (Aslanli, 2010; İpek, 2007a; Overland & Torjesen, 2010; Pomfret, 2008; Shlapentokh, 2014a). For example, Overland and Torjesen (2010) posit that Kazakhstan and Turkmenistan, to counterbalance Russia’s dominant role in the region, have purposely cultivated competing affiliations: both have developed energy relations with China, and Kazakhstan has links with NATO for military cooperation. Some scholars underscore how the multiple relations dimension of the multi-vector approach helps the Caspian states to avoid being dominated by one power (Aslanli, 2010; Makili-Aliyev, 2013; Shlapentokh, 2014a).

A more instrumental reading is that the multi-vector approach is a way for the Caspian states to maximize their manoeuvrability and bargaining power to pursue their own interests (Bohr, 2010; Hanks, 2009; İpek, 2007a; Kjaernet, 2010; Kubicek, 2013; Rinna, 2013). In his study of Kazakhstan, Hanks (2009) notes that multi-vectorism has provided the country with multiple options for dealing with Russia, the US, and China, which has helped Kazakhstan to achieve greater leverage with foreign investors in its energy sector. In a similar vein, İpek (2007a) posits that the multi-vector approach has been used to facilitate diversification of oil and gas pipeline routes.

We believe that this latter interpretation – emphasizing instrumentality and agency – of Caspian state behaviour constitutes the most accurate description of the multi-vector approach. With this article, however, we go one step further. We aver that the Caspian states, with regard to their energy relations, are no longer pursuing multi-vector approaches. We argue that, during the past five-to-ten

years, the Caspian states have become more concerned about autonomy and gaining control over their energy assets and transportation routes – and maximizing rents – than about appeasing and balancing their more powerful neighbours.

In the next sections, we present mini case studies of each dyad, in which we touch upon the interests, activities and behaviour of each actor.

5. Case studies: Russia

5.1. Russian behaviour and commercial engagement

Russia has strong geostrategic interests in the region, regarding it as part of its historical sphere of influence. Russia's overarching goals, vis-à-vis the Caspian states, are to: (1) safeguard Russian territory from destabilizing factors potentially stemming from the region; (2) protect Russian national populations in the region; (3) gain greater control over the production and transport of energy from regional producers to international markets; and (4) limit the influence of external actors in the region, such as the US and China (Bergsager, 2012; Marketos, 2009b). To accomplish these goals, Russia has employed a multi-pronged approach, comprising the creation of cooperative economic mechanisms and institutions alongside political and economic pressure, such as price manipulation in oil and gas deals (Gorenburg, 2011; Orttung & Overland, 2011). Whether these goals will change in the near future remains to be seen. Russia has recently announced its intention to stop purchasing Central Asian gas (Rickleton, 2014); if this occurs, then Russia's objectives in the region will likely change.

Russia has created several organizations to facilitate greater cooperation among the post-Soviet states. In 2000, Russia created the Eurasian Economic Community (EurAsEC) to promote a single market. EurAsEC currently includes Russia, Kazakhstan, Kyrgyzstan, Tajikistan, and Belarus. According to some experts, the purpose of the EurAsEC was to develop a protective institutional framework, which would provide security for domestic political regimes and limit Chinese influence (Allison, 2008; Berryman, 2010). As a next step, a Customs Union (CU) between Russia, Belarus and Kazakhstan was established in 2010, which was transformed into a single economic space called the Common Economic Space in 2012 to foster further economic integration. In May 2014, this alliance was reinforced by the creation of the Eurasian Economic Union (EEU), which, by 2025, should become a single market for the free movement of goods, services, capital and labour (Kuszniir, 2015a).

Russia sees the CU/EEU as a political project, whereas Kazakhstan and other members view it as a way to further their own economic interests, rather than as 'any dream of forming a super-state between Europe and Asia' (Panin, 2014: 1). Some states in the post-Soviet space view the EEU as an attempt by Russia to re-embody the Soviet Union (Bordachev, 2015) and, in Kazakhstan, some perceived the EEU 'as a threat to Kazakhstan's national sovereignty' (Satpaev, 2015: 1). On the initiative of Kazakhstan officials, a few important points were included in the operating

principles of the EEU, namely that the union should have an economic character and not strive toward further political integration. Moreover, the EEU should operate without interference in the political systems of the EEU's member states (Kuszniir, 2015a; Satpaev, 2015).

Russia has also created the Collective Security Treaty Organization (CSTO), to which Kazakhstan belongs. Russia is the main supplier of military equipment to Kazakhstan, which profits by receiving Russian weapons and defence systems under favourable conditions. Both countries also cooperate through more than 60 bilateral agreements covering defence and military-technical cooperation (Wilk, 2014), and have recently decided to build a joint regional air defence system (Rousseau, 2011). Moreover, Russian and Kazakhstan both participate in the Shanghai Cooperation Organization (SCO). Whereas the Kazakhstan government has been receptive to Russia's institution building, the governments of Azerbaijan and Turkmenistan have not.

Azerbaijani politicians have repeatedly declared that Azerbaijan will not join economic and military organizations led by Russia, because of Armenia's respective membership or observer-status in these organizations. So long as the conflict between Azerbaijan and Armenia over Nagorno-Karabakh remains unresolved, closer institutional cooperation between Moscow and Baku seems unlikely.⁴ Moscow, however, keeps the pressure on Azerbaijan. Since the establishment of the EEU in May 2014, high-ranking Russian officials have periodically visited Baku in order to persuade Azerbaijan to join the union (Abbasov, 2014; Valiyev, 2014). Despite tensions over Russia's close relationship with Armenia, Russia sells weaponry to Azerbaijan totalling US\$4 billion in 2013.⁵

Turkmenistan has steadfastly refused to join organizations and institutions, regardless of whether they are initiated by China, Russia, or any other country. In 1995, Turkmenistan requested and was granted formal UN recognition of its policy of permanent neutrality and, neutrality appears in the country's constitution (Anceschi, 2008: 25).

5.2. Energy relations

After the collapse of the Soviet Union, the Caspian countries were wholly dependent on Russian transport systems, endowing Russia with control over all their exports. In the 1990s, Russia tried to prolong this dependence by discouraging pipelines that would bypass Russian territory and encouraging the development of new pipelines – traversing Russia – to transport the region's increased output to western markets. Russia also sought to become more active in upstream activities in the Caspian region; but, unlike western companies, Russian companies could

⁴ 'Glava MID Rossii "Karabakhskaya problema nie imeet otnoshenia k evraziiskim ekonomicheskim problemam"', *1News.Az*, 18 June 2014, last accessed 14 July 2014, <http://www.1news.az/politics/20140618022408810.html>.

⁵ 'Azeri-Russian arms trade \$4 billion amid tension with Armenia', *Bloomberg*, 13 August 2013, last accessed 22 January 2015, <http://www.bloomberg.com/news/articles/2013-08-13/azeri-russian-arms-trade-4-billion-amid-tension-with-armenia>.

not offer adequate investment and technology for the development of the region's fields, many of which are geologically difficult. Russia was also burdened with problems in its internal energy market that emerged after the dissolution of Soviet structures. Thus, Russia was constrained in its capacity to play a major role in the Caspian region.

When Vladimir Putin came to power in 2000, the situation changed. Putin focused on upgrading Russia's energy expertise, reclaiming domestic energy assets 'lost' during the privatization frenzy of the 1990s, and asserting greater control over former Soviet assets abroad. Moreover, as Balmaceda (2013: 77) notes, 'by the early 2000s CA [Central Asian, the authors] gas had become essential for Gazprom to make up the difference between its domestic production and its total commitments (domestic demand and export contracts to CIS and west European markets). Yet these increased imports from CA were also the result of a business decision: that it would be more advantageous to import gas from CA for re-export to the west European markets than to engage in the large-scale development of expensive new fields.' In this context, Putin frequently visited the Caspian states to negotiate energy agreements. In the following, we review Russia's Putin-era activities in and behaviour towards these countries.

5.2.1. Russian-Azerbaijan energy relations

Russia's behaviour towards Azerbaijan has been a mix of friendliness and manipulation. The relationship's rockiness can be primarily attributed to (1) Russia's support for Armenia in the Nagorno-Karabakh issue, and (2) Azerbaijan's growing energy cooperation with the US and the EU (Agayev, 2014; Valiyev, 2010). Indeed, some analysts make a direct link between Russia's displeasure with Azerbaijan's emerging position as a gas supplier to Europe and Russia's sometimes less-than-helpful disposition towards the Nagorno-Karabakh situation (cf., Shlapentokh, 2014b). As a result of these and other tensions, bilateral relations in the 1990s 'were negative, if not hostile' (Makili-Aliyev, 2013: 4).

The most powerful example of Azerbaijan's desire to export oil independent of the Russian transit system was the construction of the US-backed Baku-Tbilisi-Ceyhan (BTC) oil pipeline in the 1990s. The pipeline was a blow to Russia, which had vehemently opposed it (Smith Stegen, 2011). Because of US lobbying for the pipeline, it has been referred to as 'America's most important Eurasian strategic initiative since the Soviet collapse' (Bremmer, 2003).

Until 2007, Azerbaijan imported Russian gas. However, with the start of gas production from the Shah Deniz field, Azerbaijan became a gas exporter. Initially, Russia imported about half a billion cubic metres per year (bcm/y) of Azerbaijani gas. During Dmitry Medvedev's visit to Azerbaijan in 2010, the two sides agreed to increase the annual volume of gas imported by Russia to 4 bcm/y.⁶ Some believe Russia achieved this deal by exerting extraordinary means of pressure. As one analyst observed: 'President Medvedev's visit to Azerbaijan was preceded by deliberate incitement

of the Lezgin and Avar ethnic minorities in Azerbaijan by Moscow to induce Azerbaijan to accept Russia's gas proposals' (Blank, 2013: 44–45).

Of the three Caspian states, Russia and Azerbaijan have the most complicated security relationship and it seems to have an influence on their energy relations. Azerbaijan is part of NATO's Partnership for Peace (PfP) programme and has refused to join Russia's security organization, the CSTO. Concomitantly, Russia has been closely aligned with Armenia and has played a questionable role in the Nagorno-Karabakh conflict (cf., Smith Stegen, 2011). To diversify away from Russia, Azerbaijan has developed energy relations with Europe and Turkey, and has also been discussing cooperation with Iran (Khatinoglu, 2014).

5.2.2. Russian-Kazakh energy relations

As in Soviet times, a large proportion of Kazakh oil exports runs through Russian territory. Kazakhstan also exports natural gas and serves as a transit country for natural gas exports from Uzbekistan and Turkmenistan to Russia via the Central Asia-Centre gas pipeline (CAC), which was constructed during Soviet times and is controlled by Gazprom, Russia's largest natural gas entity. The two countries also cooperate in the downstream sector: Russia supplies Kazakh refineries with crude oil and a significant amount of oil products. In addition, Russian companies are involved in the exploration of several onshore oil and gas fields. For example, the Russian oil company, Lukoil, has a 10% share of Kazakhstan's total crude oil production.⁷

The various activities may seem to constitute a deep energy relationship; however, Russia's engagement in the Kazakh energy sector is limited. The current Russian oil pipeline infrastructure cannot offer additional capacity to carry rising Kazakh oil production. Moreover, the CAC gas system needs to be modernized and expanded before it can accommodate more exports from Kazakhstan. Although the presidents of Russia, Kazakhstan and Turkmenistan reached an agreement to reconstruct and expand the CAC pipeline in May 2007, concrete steps have been hindered (as these problems relate to Turkmenistan, they will be discussed in the following section). Russia is also constrained with regards to offshore exploration: it cannot offer the technology, investment packages, or loans that will be required to develop Kazakhstan's offshore potential.

For its part, Kazakhstan has shown continual interest in the construction of oil and gas pipelines avoiding Russian territory, and pipelines to China have provided an attractive alternative. Kazakhstan has also developed transportation infrastructure with Azerbaijan, such as the Trans-Caspian Oil Transport System, and has expanded port capacities in Georgia to bring Kazakh oil to European markets through tankers. In this way, Kazakhstan not only reduces its dependence on Russian pipeline infrastructure, but also strengthens its relationships with Azerbaijan and Georgia and builds an energy network between Central Asia and the Caucasus. Kazakhstan has also been receptive to foreign upstream investment and has attracted the more

⁶ 'Russia buys up Azeri Gas', *Voice of Russia*, 3 September 2010, last accessed 14 July 2014, <http://voiceofrussia.com/2010/09/03/18643882/>.

⁷ Cf., Lukoil-Overseas Projects website, last accessed 14 July 2014, <http://lukoil-overseas.ru/projects/kazakhstan/61.php>.

technically adept western companies to help it develop its difficult offshore resources. These various activities have had an impact on Russian-Kazakhstan trade volumes: whereas trade between the EU and Kazakhstan has been steadily rising, trade between Russia and Kazakhstan has dropped to about half of its previous volumes (Norling, 2014).

5.2.3. Russian-Turkmenistan energy relations

The Russian-Turkmenistan energy relationship is complex. Russia has used natural gas imports from Turkmenistan to buttress its own supplies and, when Russian production has been insufficient, it has re-sold Turkmen gas to European customers. In the 1990s, Russia paid for Turkmen gas primarily with barter trade, which was not an entirely satisfactory arrangement for Turkmenistan. As Turkmen gas exports increased – via the CAC pipeline – Russia became concerned and consequently implemented export quotas and interrupted deliveries of Turkmen gas (Vasánczki, 2011). For Turkmenistan's highly dependent economy, the reduction in exports had devastating consequences. In 1999, Russia and Turkmenistan reached a new agreement, with Russia agreeing to pay 40% of its gas payments in cash (US\$36.70 per 1000 cm) and the remainder in barter trade (Barkanov, 2014: 165).

In 2003, Gazprom signed a 25-year agreement to increase Turkmen gas imports from 5 to 6 bcm/y in 2004 to 70–80 bcm/y in 2028. However, Russia never took more than 45 bcm/y under this agreement, partly because of limitations posed by the poor condition of the CAC pipeline. As mentioned earlier, in 2007 Russia, Kazakhstan and Turkmenistan agreed to upgrade the CAC pipeline; they also agreed to construct a new Caspian gas (Prikaspiysky) pipeline. However, neither the CAC's upgrade nor the new pipeline was realized because of disagreements between Russia and Turkmenistan over the new pipeline's direction. Turkmenistan hoped it would connect its large Yolotan field to domestic ports at the Caspian Sea, allowing delivery of Turkmen gas to international markets. Russia, in turn, agreed to invest only if Turkmenistan connected the pipeline to the existing CAC, re-routing Turkmen gas to Russia instead of to the Caspian ports. The Turkmen government rejected this proposition and is building a new East-West gas the pipeline on its own (Socor, 2009). The pipeline will transport gas from gas fields in eastern Turkmenistan to the coast of the Caspian Sea.⁸

A second reason for Russia's failure to buy more Turkmen gas has been frequent disagreements over price. In the mid-2000s, Turkmenistan sought a price increase in response to price developments in Europe, which Russia was not willing to pay. However, the negotiating dynamics between Russia and Turkmenistan changed when China became a customer for Turkmen gas.

Like Kazakhstan, Turkmenistan has been seeking non-Russian transit routes, partly to reduce reliance on Russia, and partly because Turkmenistan has been experiencing

technical and financial difficulties and needs assistance beyond Russia (Bochkarov, 2013; *Crude Accountability*, 2009; US Energy Information Agency, 2012). And, like Kazakhstan, Turkmenistan has found distinct benefits to partnering with China. In 2007, China and Turkmenistan agreed to construct the Central Asia–China gas pipeline. In 2009, gas began flowing from Turkmenistan to China and, by 2012, China was importing more than half of Turkmenistan's total gas exports.⁹ Turkmenistan also supplies pipeline gas to Iran, but the quantities exported were too small to challenge Russia's position. However, China's entry as a customer significantly weakened Russia's dominance in the Turkmen energy sector. Additional threats to Russian influence include the growing interest of western countries in Turkmenistan's gas resources and Turkmenistan's interest in liquefied natural gas (LNG). It already has one LNG terminal and in 2012 announced plans to increase its capacity (see Jackson, 2012).

With the leverage it gained from having new customers, in 2009 Turkmenistan was able to pressure Russia to pay European prices for Turkmenistan's gas (Barkanov, 2014; Overland, 2009). Gazprom soon regretted this decision. The global economic crises and falling gas consumption in Europe lowered demand for Russian gas imports: 'Gazprom found itself in the uncomfortable position of buying Turkmen gas [...] at prices that exceeded those it received from European consumers. Some observers speculated that the agreement to pay "European price" was a "mistake"' (Barkanov, 2014: 165–166). New negotiations between Russia and Turkmenistan over gas prices and import volumes were 'interrupted' and Russian imports were halted after an explosion on the Russian portion of the CAC gas pipeline in April 2009, causing significant revenue losses for Turkmenistan. Because the blast occurred when Russia was seeking to reduce its imports of Turkmen gas, the Turkmenistan government was suspicious.¹⁰ Ten months later, the gas dispute was resolved and reports indicate that Gazprom agreed to purchase up to 30 bcm/y of Turkmen gas at European price levels (Barkanov, 2014),¹¹ but has hitherto never taken more than 10 bcm/y.¹²

As the Russian-Turkmenistan disagreement over the routing of the proposed Prikaspiysky pipeline demonstrated, Russia seeks to defend its strong market position in Europe and constrain the Caspian states from accessing those markets. For this same reason, Russia has steadfastly

⁸ "Turkmenistan zavershayet stroitelstvo exportnogo gazoprovoda Vostok-Zapad", *Neftegaz.ru*, 21 March 2014, last accessed 14 July 2014, <http://neftegaz.ru/news/view/124358%29>.

⁹ 'China's imports of Turkmen gas since 2009 totals 30 Bcm: CNPC', *Platts*, 4 June 2012, last accessed 14 July 2014, <http://www.platts.com/latest-news/natural-gas/singapore/chinas-imports-of-turkmen-gas-since-2009-totals-7686814>; 'Ashgabat, Beijing sign deals to expand Turkmen gas exports to China', *Platts*, 4 September 2013, last accessed 14 July 2014, <http://www.platts.com/latest-news/natural-gas/moscow/ashgabat-beijing-sign-deals-to-expand-turkmen-27370637>.

¹⁰ 'Turkmenistan: Gas blast ignites Turkmen-Russian row', *EurasiaNet*, 9 April 2009, last accessed 14 July 2014, <http://www.eurasianet.org/departments/insight/articles/eav041009b.shtml>.

¹¹ 'Ob itogakh vizita delegatsii OAO 'Gazprom' v Turkmenistan', *Gazprom*, 22 December 2009, last accessed 14 July 2014, <http://www.gazprom.ru/press/news/2009/december/article73466/>.

¹² 'China secures larger Turkmen gas supplies', *Reuters*, 3 September 2013, last accessed 21 July 2014, <http://uk.reuters.com/article/2013/09/03/gas-turkmenistan-china-idUKL6N0GZ31W20130903>.

opposed the construction of the 300 km-long Trans-Caspian Pipeline (TCP), which would cross the Caspian Sea and allow the East Caspian states to more easily access western markets. The US originally proposed the TCP in 1996 as an alternative to Russian pipelines and was supported by several countries. At the OSCE Istanbul summit in November 1999, Turkmenistan's President and his Azerbaijani, Georgian, and Turkish counterparts signed a letter of intent to build the TGCP.¹³ Around this same time, Turkmenistan and Russia had been negotiating over new payment arrangements. When Russia agreed to pay 40% of its payment in cash, Turkmenistan dropped its support for the TCP and the project stalled.

The 2007–2008 launching of the EU Southern Gas Corridor, a plan to develop new supply routes and infrastructure to import gas from the Caspian and Middle East regions,¹⁴ has reawakened EU interest in the TCP. In 2011, the EU member states mandated the European Commission (EC) to secure a binding agreement for the TCP. Russia, however, has not become more receptive and now argues, among other reasons, that construction of the pipeline could endanger the Caspian Sea's sensitive ecosystem. Moreover, Russia has emphasized, as before, that any construction agreement would require the approval of all five Caspian littoral states. Further complicating matters, Turkmenistan and Azerbaijan disagree over offshore boundary demarcations. The TCP thus faces technical, legal and financial problems, all of which serve Russia's interests in thwarting the project (Blagov, 2014).¹⁵ In 2014, Turkmenistan, Azerbaijan and Turkey began engaging in a series of trilateral talks to discuss the Southern Gas Corridor. Reportedly, all options are on the table, and the advantages and disadvantages of each are under discussion. The EU does not appear to be a party to these talks. The general impression gained from the trilateral talks is that the joint Azerbaijan-Turkish Trans Anatolian Natural Gas Pipeline (TANAP) project (discussed below) is taking precedence over any future TCP. On one hand, this makes sense, as TANAP is a concrete agreement and TCP must still overcome myriad obstacles. However, it is noteworthy that the EU does not seem to be involved, at least not on a formal basis, in discussions that could affect the fate of yet another EU-backed pipeline.

6. Case studies: EU

6.1. European Union behaviour and commercial engagement

Beyond EU technical assistance programmes, in the 1990s there was very little intergovernmental activity pertaining to energy between the EU and the Caspian

states. This changed, however, in the late-2000s: First, European gas demand rose; and, second, several EU member states experienced gas disruptions during the various Russian-Ukrainian gas disputes. Because of intensified concern over energy security, EU officials developed the EU Security and Solidarity Action Plan, which included supporting the Southern Gas Corridor, a plan to develop new supply routes and infrastructure to import gas from the Caspian and Middle East regions.¹⁶ The EU has also attempted to formalize relations with these states through a series of measures, ranging from Partnership and Cooperation Agreements (PCAs) to Memorandum of Understandings (MoUs) to Association Agreements (part of the EU's Eastern Partnership initiative).

Despite its interest in Caspian resources, the EU has had great difficulty in forging a unified approach in its relations with the Caspian states. The EU contains a multitude of divergent interests; for example, those of the European Commission, single member states, international companies, and NGOs. A main point of contention is the human rights situation in the Caspian region. The NGOs push Brussels to take a harder line on human rights (cf. e.g., Kourmanova, 2014). In 2008, the EU and the Central Asian states agreed to hold annual Human Rights Dialogue (HRD) sessions. Ironically, rather than serving to substantially increase pressure for human rights reforms, the HRD, by providing a separate forum, has allowed a decoupling of human rights from other issues, such as trade relations (cf., Axyonova, 2011). Regarding Azerbaijan, one commentator lamented that the EU 'has been strong on democracy and human rights rhetoric but woefully weak on substance' (Boonstra, 2008: 142). Although the EU has been criticized for not exerting greater pressure, the pressure it has levied has been disconcerting for the Caspian's authoritarian regimes (cf. e.g., Peyrouse, 2014).

Another issue in the relations between the EU and the Caspian states is security. Azerbaijan and Kazakhstan have links with NATO, but the EU is too 'far away' to become a serious security partner. No matter how closely the Caspian states cooperate with the EU, the EU would not be able to supply the same intensity of security relations that these states have – either happily or because circumstances demand – with Russia (cf., Gast, 2014). Some commentators have even suggested that Kazakhstan cooperates with NATO as a counterbalance to its involvement in the Russian-led alliance, CSTO (Marat, 2010: 110; Sharip, 2009).

6.2. EU-Azerbaijan energy relations

To promote European commercial investments into Azerbaijan's energy sector, the EU and Azerbaijan signed a PCA in 1996. In November 2006, both sides signed a MoU prioritizing specific areas of energy cooperation, for example, encouraging energy efficiency and renewable energies, and also developing transit systems (European External Action Service, 2014a). This was followed by the

¹³ 'Transcaspien gas pipeline accord signed', *Radio Free Europe/Radio Liberty*, 19 November 1999, last accessed 14 July 2014, <http://www.hri.org/news/balkans/rferl/1999/99-11-19.rferl.html#13>.

¹⁴ 'The EU Energy Security and Solidarity Action Plan', *Europe.eu*, 4 March 2009, last accessed 15 July 2014, http://europa.eu/legislation_summaries/energy/european_energy_policy/en0003_en.htm.

¹⁵ 'Russia says pipelines across Caspian Sea floor unacceptable', *RIA Novosti*, 25 January 2007, last accessed 14 July 2014, <http://en.ria.ru/russia/20070125/59687576.html>.

¹⁶ 'The EU Energy Security and Solidarity Action Plan', *Europe.eu*, 4 March 2009, last accessed 15 July 2014, http://europa.eu/legislation_summaries/energy/european_energy_policy/en0003_en.htm.

Joint Declaration on the Southern Gas Corridor signed in Baku in January 2011, which provides a legal framework for supplying Azerbaijani gas to Europe, including building direct delivery routes from Azerbaijan to Europe and creating the necessary regulations and commercial conditions.

However, in the area of multilateral cooperation, Azerbaijan does not see integration with the EU as a main goal of its foreign strategy and is looking to establish a strategic partnership *primarily* in the economic and energy spheres. For this reason, Baku has not signed the Association Agreement within the framework of the EU Eastern Partnership (Ibrahimov, 2014; Makili-Aliyev, 2013).

Alongside these intergovernmental agreements, European energy companies have been involved since the early 1990s in exploring and producing Azerbaijani oil and gas fields and developing new transportation routes. The most prominent European company and largest foreign investor in Azerbaijan is BP, which operates the Azerbaijan International Operating Company (AIOC), a consortium producing 80% of the country's oil (US Energy Information Agency, 2013a).

Despite the heavy involvement of European companies in Azerbaijan, the EU has a miserable track record in securing transit routes for natural gas from the Caspian region. For example, the proposed 31 bcm/y Nabucco pipeline project, announced in 2002 by various European companies, encountered hurdle after hurdle. Part of the problem was the consortium's inability to secure firm commitments of natural gas from Caspian and Middle Eastern suppliers, a problem exacerbated by the tepid diplomatic support provided to Nabucco by EU officials, even though the EU had formally designated Nabucco as a project of common European interest (Kuznir, 2012a; Nanay & Smith Stegen, 2012; Smith Stegen & Palovic, 2014).

In the midst of Nabucco's troubles, in 2011 the TANAP project was initiated by Azerbaijan (80% share) and Turkey (20% share). This pipeline is planned to run from the Georgian-Turkish border to the Turkish-European border, where it will branch into two pipelines, one to Greece and another to Bulgaria. The Nabucco consortium, realizing it could not compete against TANAP, scaled Nabucco down to a shorter 'Nabucco West', which the consortium hoped would be selected to connect to TANAP. However, in the final competition, Nabucco West lost out to the Trans-Adriatic Pipeline (TAP) (Kuznir, 2015b). TAP will have an initial capacity of 10 bcm/y, which could be potentially doubled to 20 bcm/y. These capacity figures mean that Europe will receive less gas than it would have through the Nabucco pipeline. The Nabucco versus TANAP outcome also means that Azerbaijan has been able to position itself as a key – if not *the* key – decision-maker in the EU's Southern Corridor initiative; a position that Brussels may have preferred to retain for itself.

6.3. EU-Kazakhstan energy relations

The first basic document establishing bilateral cooperation between the EU and Kazakhstan was a PCA, signed in 1995, which set common goals for cooperation, including for energy, trade and investment. In December 2006, the

European Commission and Kazakhstan signed a MoU, launching two road maps on energy security and industrial cooperation (European External Action Service, 2014b). More recently, in October 2014, the EU and Kazakhstan concluded negotiations on an *enhanced* PCA, covering 29 cooperation areas. The enhanced PCA does not foresee the establishment of a free trade area, but it is the first of its kind outside the Eastern Partnership agreements. Agreement on the new PCA was reached a few months after the establishment of the EEU between Kazakhstan, Belarus and Russia, which, in the opinion of some experts, shows Kazakhstan's continued interest in balancing its relations with Russia (Norling, 2014; Schlager, 2014).

Since the early 1990s, major European energy companies, including Total, Royal Dutch Shell, and the British BG Group, have developed close cooperation with Kazakh energy companies on oil and gas projects. These include the development of Kazakhstan's largest onshore oil field, Karachaganak, which holds around 1.2 billion tonnes of oil and gas condensates and 1.3 trillion cubic metres of natural gas (US Energy Information Agency, 2013b), and accounts for 45% of Kazakhstan's domestic gas production.¹⁷ The European companies Royal Dutch Shell, Total, and Eni, are shareholders in the North Caspian Operating Company (NCOC) consortium, which is developing the offshore Kashagan oil field, the world's fifth largest known field in terms of reserves (US Energy Information Agency, 2013b).

Just as Azerbaijan has become more assertive vis-à-vis its energy relations with western parties, so has Kazakhstan. In 2007, the Kazakh government promulgated laws allowing it to 'break natural resource contracts and force renegotiation. This puts pressure on projects involving both IOCs and national oil companies (NOCs) in new and well-established partnerships: 'In this investment model, described by some as "market-friendly resource nationalism", the state company renegotiates to become the dominant partner' (Garrison & Abdurahmonov, 2011: 395). Kazakhstan used the new legislation to force foreign companies in the Kashagan consortium to relinquish shares.

6.4. EU-Turkmenistan energy relations

In May 1998 Turkmenistan signed a PCA with the EU, which covered political dialogue, trade and economic relations. A few months later, in November 1998, both sides reached an Interim Trade Agreement. However, no further significant achievements were made and relations stagnated. The situation began to change in the mid-2000s when the EU identified Turkmenistan as an important part of its Southern Gas Corridor initiative. Turkmenistan-EU cooperation was strengthened through a series of meetings between Turkmen President Gurbanguly Berdimuhamedov and EU officials in Brussels in 2007. Subsequently, the EU developed different cooperative instruments to support reforms in Turkmenistan's economic, social and institutional sectors, and a Europa House

¹⁷ Cf., Karachaganak Petroleum Operating website, last accessed 14 July 2014, <http://www.kpo.kz>.

was opened in April 2008 (European External Action Service, 2014c). However, relations have also been complicated by Turkmenistan's problematic human rights record: The EU has placed pressure on Turkmenistan and the Turkmen regime, in turn, bristles at the criticism. The development of bilateral relations has been smoothed, somewhat, with the launching of the EU-Turkmenistan Human Rights Dialogue (Anceschi, 2010).

For many years, Turkmenistan was leery of allowing foreign involvement in its energy sector; it was not until May 2008 that the EU and Turkmenistan signed a MoU to work together on issues such as technology exchange and the development of Turkmenistan's oil and gas fields. Nevertheless, European energy companies made little headway in Turkmenistan. The re-launching of the TCP initiative has meanwhile intensified the EU's interest in Turkmenistan. The President of the European Commission, Jose Manuel Barroso, visited Turkmenistan in January 2011 and Turkmenistan's leader expressed willingness to supply 30 bcm/y to a future TCP; however, among other complications surrounding the TCP project, Turkmenistan and the EU have not been able to agree on a pricing arrangement (Blank, 2013: 18).¹⁸ Because of the political situation between Russia and Ukraine and the uncertainty of future gas supplies to Europe, in mid-2014, the EU once again approached Turkmenistan about the TCP. Meanwhile, as mentioned in the Russia–Turkmenistan case study, Turkmenistan has been engaged in trilateral talks with Azerbaijan and Turkey over the various options for supplying the Southern Gas Corridor (Fitzpatrick, 2014). It is not clear if the TCP will be among the 'winners'.

Since the Caspian states gained independence, the EU's approach towards energy security has steadily evolved. But there have been challenges: The EU must balance the interests of its individual member states, which often clash with Brussels's interests, while contending with its own complex decision-making mechanisms. Consequently, the EU has been only partially successful in realizing its Southern Gas Corridor. It managed to obtain 10 bcm from Azerbaijan (via TANAP-TAP) and has initiated various political and economic overtures towards Turkmenistan that have sparked Turkmenistan's interest in greater energy cooperation. Some observers claim that the energy security crises of the late 2000s have changed the attitudes of EU officials, who now realize that external pressure on the political regimes in the Caspian region cannot guarantee supplies of significant volumes of gas. Moreover, EU officials have recognized quite late that they have better chances of succeeding when they consider the national interests and preferences of local elites (Anceschi, 2010; Denison, 2009). Even if the EU tones down its political pressure, it must still confront other issues preventing it from competing head-to-head with other actors: the EU can neither offer investments or stimulatory financial

mechanisms at the same level as Chinese NOCs nor can it promote individual European companies. This kind of support is particularly important for elites from countries such as Turkmenistan, who are accustomed to dealing with single state-owned companies, rather than multiple entities (Denison, 2009).

7. Case studies: US

7.1. US behaviour and commercial engagement

The involvement of the US in the Caspian dates back to the early 1990s when US energy companies became interested in tapping new sources of non-OPEC oil and the US government realized it could reduce Russian and Iranian influence if it supported pipelines bypassing those countries. The best example is provided by the US government's intense support for the BTC pipeline. US diplomats have also actively supported the EU in getting Caspian gas for the Southern Gas Corridor. In particular, at the end of the 2000s, they intensively encouraged Azerbaijan to promise gas to the Nabucco pipeline (Nanay & Smith Stegen, 2012); and, later, backed the TANAP project.¹⁹ Despite this interest, however, the US is the only major external actor without a 'regularized consultative mechanism' in the region (Starr, 2014: 6).

In 2011, the US government announced the 'New Silk Road' initiative, which some hope will promote greater regional economic and transit cooperation between South and Central Asia and thereby enhance stability in the region after the drawdown of US and NATO troops from Afghanistan (US Department of State, 2014; see also Kim & Indeo, 2013; Rywkin, 2011; Starr, 2011). To realize the New Silk Road, the US government identified several high-priority infrastructure projects, including a rail line from Afghanistan to Turkmenistan and Tajikistan, a regional electricity network, and the 1735 km long Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipeline, which would bypass Russian territory. According to US officials, the pipeline is particularly important because it would provide transit revenues for both Afghanistan and Pakistan and link Afghanistan to global markets (Kim & Indeo, 2013; Mankoff, 2013). The US government also hopes TAPI will stop the realization of a rival Iran-Pakistan-India gas pipeline (Cabestan, 2011). It should be noted, however, that some commentators are sceptical of the seriousness of the New Silk Road initiative, asserting it is merely a re-packaging of existing projects (Blank, 2013).

For the US government, engagement in the region is shaped by strategic and political objectives. Similar to the EU's internal contradictions, the US' approach is influenced

¹⁸ 'Turkmenistan mulls opportunities of its gas supplies to Europe: President', *Azernews.az*, 18 October 2013, last accessed 12 July 2014, <http://www.azernews.az/region/60791.html>; 'SOCAR: Trans-Caspian gas pipeline will be a very ambitious project for EU', *Trend.az*, 12 February 2013, last accessed 14 July 2014, <http://en.trend.az/capital/energy/2118681.html>.

¹⁹ 'US Senate Committee on Foreign Relations hold hearing on Morningstar's candidacy to post of ambassador to Azerbaijan', *Avcıya.az*, 2012, last accessed 14 July 2014, <http://avciya.az/eng/news/intheworld/2448-us-senate-committee-on-foreign-relations-hold-hearing-on-morning-stars-candidacy-to-post-of-ambassador-to-azerbaijan.html>; 'Richard Morningstar: Would Azerbaijan be able to retain its independence if there is not a Baku-Tbilisi-Ceyhan oil pipeline?', *Contact.az*, 23 April 2014, last accessed 21 July 2014, <http://www.contact.az/docs/2014/Politics/042300076452en.htm#U80ERLF3t8E>.

by groups with divergent interests. The US government fears that civil crises in the region would create power vacuums that could be filled by extremist Islamic groups and thus provides support to the region's authoritarian regimes (İpek, 2007b; see also Raphael & Stokes, 2014). Some voices within the US, however, assert that the US has been too focused on security relations at the expense of pushing for human rights reforms (İpek, 2007b; Nichol, 2014). The US government has, at times, pressed for political reform and democratization – for example, in Turkmenistan and in Kazakhstan – to the extent that it has reportedly unnerved regional elites: 'Washington has come to be viewed as the greater threat to the region's non-democratic ruling elites, who fear that they are targets for ouster' (Olcott, 2005: 331; see also Hu & Cheng, 2008). In other words, the US is torn between pushing for liberalization and other democratic reforms while simultaneously supplying the very same regimes with security assistance to help stabilize them as well as help them protect their energy assets from disruptions, such as terrorist attacks (for more on US security assistance, see Raphael & Stokes, 2014).

Turning to more purely commercial engagement in the region, US companies have often been at the forefront of energy deals and consortia in the region, which will be covered in the next sections.

7.2. US-Azerbaijan energy relations

As mentioned earlier, the US government has lobbied Azerbaijan to commit oil and gas to western markets and US companies have also been active. For example, ExxonMobil and Chevron hold stakes in the AIOC. Moreover, these two companies are significant investors in infrastructure projects, including the South Caucasus Pipeline (a gas pipelines from Baku via Tbilisi to the Turkish town of Erzurum) and the BTC oil pipeline. They are also involved in developing the Trans-Caspian Oil Transport System between Azerbaijan and Kazakhstan. The economic engagement of the US in Azerbaijan is, however, complicated by organized Armenian interests in the US – the 'Armenian lobby' – which has often succeeded in blocking US support initiatives for Azerbaijan. Officially, US aid to Azerbaijan is even banned, per Section 907 of the Freedom Support Act, which was put into force in October 1992 during the Nagorno-Karabakh conflict. The section has been suspended by every US president since 2002; however, so long as the restriction remains, it symbolically and materially punishes Azerbaijan and makes it vulnerable to aid cut-offs.²⁰

7.3. US-Kazakhstan energy relations

The involvement of US oil companies in Kazakhstan dates back to Soviet times, when Chevron was invited to help develop difficult fields. Chevron is still a significant

presence in Kazakhstan, holding a 50% stake in Tengizchevroil (which operates the large Tengiz oil field), and a 15% stake in the Caspian Pipeline Consortium (CPC) (US Energy Information Agency, 2013b). ExxonMobil and ConocoPhillips have both been members of the NCO consortium, which is developing the offshore Kashagan oil field. When Kazakhstan changed its laws in 2007, allowing it to renegotiate contracts, both companies had to give up shares (Daly, 2014). In July 2013, ConocoPhillips sold the remainder of its shares to the Kazakh government, reportedly because of the high costs and long delays associated with the project (Helman, 2012). Of note is that, in September 2013, these shares were acquired by the China National Petroleum Corporation (CNPC).²¹

7.4. US-Turkmenistan energy relations

Because of its problematic human rights record, the US initially took a hard-line against Turkmenistan. The US did not initially recognize Turkmenistan's independence and, in September 1993, cut off trade credits to protest the arrests of four human rights activists. The US approach softened, however, as US strategic and economic interests became more apparent: On the one hand, Turkmenistan could play an important role in reducing Europe's reliance on Russian natural gas and, on the other hand, the US feared that Turkmenistan could become a significant energy partner for Iran. Thus, in 1993, the US allowed Turkmenistan to secure most-favoured-nation trading status (International Business Publications, 2009: 223). However, the US returned to its hard-line stance in 2002, when human rights problems again came to the fore (Decaux, 2003; US Department of State, 2003).

Despite these intergovernmental tensions, both Chevron and ExxonMobil have expressed interest in Turkmenistan (Bhutta, 2013). However, US companies face two obstacles. First, US government concerns about 'democratic accountability places constraints on the depth of the private-public sector relationship' (O'Neill, 2014: 3). In other words, the US government is reticent about supporting US commerce in Turkmenistan, which makes it difficult for US companies to compete against companies with strong state backing, such as their Chinese NOC rivals. Second, Turkmenistan's extant long-term gas contracts with Russia and China cover all its currently available gas.

In sum, all of the major actors covered here – Russia, the EU and the US – are interested in participating in Caspian upstream projects and in influencing, if not controlling, the routes of export pipelines. They have all also pursued political objectives that regional leaders, for the most part, find objectionable. Russia seeks 're-integration', and the EU and US press for political reform. Meanwhile, Russia and the US both seek to minimize each other's influence. For Caspian leaders, China's commercial interest, combined

²⁰ 'Section 907 loses relevance to Azerbaijan, top official says', *Trend.az*, 5 May 2012, last accessed 21 July 2014, <http://en.trend.az/news/politics/2022586.html>.

²¹ 'China buys into giant Kazakh oilfield for \$5 billion', *Reuters*, 7 September 2013, last accessed 14 July 2014, http://www.reuters.com/article/2013/09/07/us-oil-kashagan-china-idUSBRE98606620130907?feedType=RSS&feedName=topNews&utm_source=dlvr.it&utm_medium=twitter&dlvr=992637.

with its non-intervention approach, provides both an alternative and a counterweight.

8. Case studies: China

8.1. Why does China look to Caspian producers?

For many years, China was energy self-sufficient; however, as its economy has grown, so has its demand for energy. In 1993, oil demand outstripped domestic supply and China became a net oil importer; in 2006, it became a net gas importer. Within less than two decades, China became the world's largest energy consumer and by 2012 had to import 57% of its oil. If current trends continue, by 2020 it will rely on imports for 66% of its oil supply. Chinese officials have become increasingly worried about energy security and have undertaken numerous strategies. Domestically, the government encourages greater oil and gas exploration and production, energy conservation, and the promotion of renewable energies, among other measures. Internationally, officials focus on securing energy supply chains and transportation routes (Smith Stegen, 2015).

Significant portions of China's oil and LNG imports from the Middle East and Africa pass through the Strait of Malacca, where the US Navy controls regional Sea Lines of Communication. Consequently, Chinese officials fear that the US could halt oil and LNG shipments in the case of a conflict between China and a US ally in the Pacific. Consequently, the Strait of Malacca has become a strategic weakness for China. To cope with the 'Malacca dilemma', China is enhancing its blue-water naval capabilities, but has also focused on constructing overland pipelines, for example, in Myanmar, Pakistan, and Iran (Blumenthal, 2008; Chen, 2010; Smith, 2014). To further secure overland supplies, China has also intensified its involvement in the Caspian region (Smith Stegen, 2015).

Overlapping its country-specific commercial investments, China, similar to Russia, has sought to develop multilateral institutions, such as the SCO, which originated in 1996 in cooperation agreements between China, Russia, Kazakhstan, Kyrgyzstan, and Tajikistan. According to several analysts, the SCO helped China reduce the influence of its perceived rivals (e.g., the US and India) in the region and re-define existing geopolitical alliances in its favour (Marketos, 2009a: 11; Cabestan, 2013). During Xi Jinping's 'victory lap' visit to Astana in September 2013, an initiative even more ambitious than the SCO was announced: the launching of a new 'Silk Road' economic belt, which would connect eastern, western and southern Asia (Szcudlik-Tatar, 2013). The 'Silk Road' plan would be more comprehensive 'than either Russia's "Eurasian Union" or the United States' "New Silk Road" projects. [...] Energy resources will flow from the west and goods will flow both eastwards and westwards, with China as the central hub' (Smith Stegen, 2015).

8.2. China–Azerbaijan energy relations

When China and Azerbaijan established diplomatic relations in 1992, trade turnover between the two countries

amounted to only US\$1.5 million. By 2013, the volume of trade had increased several hundred-fold to US\$1.2 billion. The main areas of investment are construction, communications and agriculture. China has also intensified energy cooperation with Azerbaijan, although the level of activity is relatively modest in comparison to its engagements in Kazakhstan and Turkmenistan. Since 2002, CNPC has entered into several production sharing contracts and has developed and operated Azerbaijani oil fields as well as provided technical support and services.²² However, China was rather late in approaching Azerbaijan and most of the major deals have already been sealed. Nonetheless, China is highly interested in making inroads into the Azeri energy sector (UK Foreign and Commonwealth Office, 2014). China may yet play a larger role if new fields are found or if partners depart from consortia and new investors are needed. At the moment, however, most of China's energy activities are in the East Caspian states.

8.3. China–Kazakhstan energy relations

Over the last two decades, Chinese–Kazakh relations have developed according to a comprehensive bilateral strategic partnership based on a contractual framework covering numerous agreements and documents. China is Kazakhstan's leading economic and trade partner and, Kazakhstan, among the post-Soviet states, is China's largest trading partner. The volume of mutual trade in 2013 reached US\$22.5 billion. In 2013, exports from Kazakhstan to China were worth US\$14.3 billion, while imports from China amounted to US\$8.2 billion (Delegation der deutschen Wirtschaft für Zentralasien, 2014). The main exports to China are natural resources, including crude oil, natural gas, copper and other metals.

At least 22 energy companies with Chinese participation are active in Kazakhstan's oil sector; ten of them are wholly or almost entirely controlled by Chinese investors. The share of Chinese companies in the Kazakh oil industry is expected to soon exceed 40%.²³ The most prominent participant is CNPC, which has acquired stakes in Kazakh energy companies and is involved in various upstream and infrastructure development projects. For example, it owns 60% of Kazakhstan's Aktobe Oil and Gas Corporation, a subsidiary of the national energy company KazMunaiGaz (KMG). Together with KMG, CNPC constructed the Kazakhstan–China oil pipeline, with a capacity of 12.5 million tonnes per year. The two companies are also constructing the Kazakhstan–China gas pipeline, which will eventually link up to the Central Asia–China pipeline network.

During Xi Jinping's 'victory lap' tour in September 2013, Kazakhstan and China signed over twenty energy deals worth US\$30 billion and CNPC acquired an 8.33% stake in

²² Cf., CNPC website, last accessed 21 July 2014, <http://classic.cnpc.com.cn/en/cnpcworldwide/azerbaijan/?COLLCC=2792998382&>.

²³ 'V RK 22 neftyanye kompanii s kitaiiskim uchastiem', *Forbes.kz*, 12 January 2013, last accessed 14 July 2014, http://forbes.kz/process/probing/v_rk_rabotayut_22_neftyanyie_kompanii_s_kitayskim_uchastiem.

the Kashagan offshore project (the shares previously belonging to ConocoPhillips).²⁴ It is China's first offshore and largest acquisition in the Caspian Sea basin and will help China fill the Kazakhstan–China oil pipeline.

China has rapidly become a major player in Kazakhstan, perhaps too quickly and too prominently for many Kazakhs. Just as Kazakhstan (and other Caspian states) have become more assertive with its western partners, Kazakhstan has also asserted itself against China. For example, in 2005, the Kazakh government pressured CNPC to overpay for Petrokaz and then later sell a third of the shares, at a loss, to Kazakhstan's KMG (Garrison & Abdurahmonov, 2011; Liao, 2006). There has also been backlash in Kazakhstan against China's engagement: When China wanted to rent significant tracts of agricultural land in Kazakhstan in the late 2000s, demonstrations were organized against 'Chinese expansionism' (Roberts, 2010). And, voices critical of burgeoning Chinese influence were particularly present after the ratification of the bilateral agreements on energy cooperation between Kazakhstan and China in September 2013. Kazakhstan's First Deputy Prime Minister Bakytzhan Sagintayev reportedly stated that he 'did not want to see any single country controlling more than 30% of its [Kazakhstan's, the authors] oil and gas production.' According to Sagintayev: 'Our priority is protecting our national interests. We will not allow the expansion of not only China, but also any other country in the energy sector'.²⁵

8.4. China–Turkmenistan energy relations

China has also successfully acquired significant energy stakes in Turkmenistan. In 2007, Ashgabat and Beijing began constructing the 1833 km long Central Asia–China gas pipeline, connecting Turkmenistan, Uzbekistan and Kazakhstan with Xinjiang (US Energy Information Agency, 2012). In 2012, Turkmenistan exported 21.3 bcm of gas via the pipeline to China (BP, 2014), about half of the country's total gas exports and about half of China's total imports. In September 2013, China and Turkmenistan decided to expand the Central Asia–China pipeline's capacity to 65 bcm/y by 2020. For Turkmenistan, gas exports to Chinese energy markets reduce its dependence on Russia, increase export revenues, and promote economic growth. Moreover, at the moment, CNPC is the only foreign company involved in the development of Turkmenistan's onshore gas fields. In 2012, China became Turkmenistan's leading trade partner, a position that was further secured with the massive agreements signed during China's 2013 'victory lap' visit.

With regards to multilateral institutions: Turkmenistan's president has attended meetings of the heads of SCO member states and has spoken regularly about the

prospects and significance of the SCO for cooperation in the energy and transportations sectors. However, Turkmenistan is neither an SCO member nor observer state and, just as Turkmenistan is reluctant to join Russian institutions, it has no plans to join the SCO.²⁶

In sum, several factors can explain China's success in Kazakhstan and Turkmenistan. First, China can offer financial support and massive investment packages on a scale unfeasible for western companies (O'Neill, 2014) or for Russian entities. Second, some analysts maintain that China's success stems from its non-interference policy in internal matters and its acceptance of existing informal rules (Blank, 2012; Cabestan, 2011; Weitz, 2008). According to Olcott (2013: 1), 'what Central Asian leaders find most appealing about this approach is [...] Beijing's strategy of developing investment projects that both sides find genuinely beneficial, and avoiding all discussions of domestic political affairs.'

9. Discussion and conclusion

Which state has 'won' the energy component of the Caspian's 'New Great Game'?

We argue that the winners are China as well as the Caspian states themselves. In terms of the major external powers, China has billions of dollars to invest and these investments, for the most part, have been welcomed by the Caspian states. China is now the main trading partner of both Kazakhstan and Turkmenistan. Azerbaijan has also been receptive to Chinese investment and Chinese companies could gain a strong foothold in exploration and production. As several experts of the region have noted, China has taken the lead (Boonstra & Laruelle, 2013; Olcott, 2013; Genté, 2014; Standish, 2014). Which factors produced this 'dark horse winner' outcome? We argue that some of the behaviour of the major external actors in the region provided incentives for the Caspian states to look for alternative partners; and, we argue that US naval dominance in the Strait of Malacca reinforced China's search for new sources of energy.

Russia has been heavy-handed with regards to its integration efforts and its desire for control over energy infrastructure and routes, all of which have irritated Caspian rulers. Even Kazakhstan, which seems closest to Russia, has made sure to sign equivalent agreements with the West, for example, signing the enhanced PCA with the EU on the heels of joining Russia's EEU. Although the US and the EU may not have emphasized political reform, human rights and democratization as much as the NGO community would have liked them to, both have nonetheless exerted some pressure, which has consternated Caspian authoritarian rulers. China, which emphasizes that its aid and investments are not tied to political reform, has appeared as a very welcome alternative. Meanwhile, China's willingness to invest significant sums in the Caspian region is related partly to its rapidly increasing demand for energy and

²⁴ 'China buys into giant Kazakh oilfield for \$5 billion', *Reuters*, 7 September 2013, last accessed 14 July 2014, http://www.reuters.com/article/2013/09/07/us-oil-kashagan-china-idUSBRE98606620130907?feedType=RSS&feedName=topNews&utm_source=dlvr.it&utm_medium=twitter&dlvr.it=992637.

²⁵ 'Kazakhstan may restrict foreign involvement in oil and gas sector', *Newsbase, FSU Oil & Gas Monitor*, 21 May 2014.

²⁶ 'Permanent Neutrality Turkmenistan: Cooperation for peace, security and progress', *Turkmenistan.ru*, 14 December 2010, last accessed 14 July 2014, <http://www.turkmenistan.ru/en/articles/14412.html.s>.

partly to its concern over US naval control of the Strait of Malacca. The military activities of the US play an important role in the Caspian dynamics, a factor which we believe has been overlooked in most accounts of the Caspian's 'New Great Game'.

An additional contribution of our article is our side-by-side presentation of the energy relations in the Caspian region, between each of the major external actors – Russia, the US, the EU, and China – and the energy-producing Caspian states – Azerbaijan, Kazakhstan, and Turkmenistan. Our account indicates that, during the past decade, the Caspian states have become very assertive in gaining control over their energy assets and over transportation routes. The Caspian states have become autonomous actors. We argue that this assertive behaviour does not fall under the category of multi-vectorism; in other words, some of the behaviours related in the case studies do not constitute neutrality, balancing, counterbalancing, or any of the other descriptions of multi-vectorism. Let us consider various demonstrations of assertiveness by the Caspian states.

In 2007, the Kazakhstan government passed legislation that enabled it to cancel and renegotiate contracts with foreign partners, which it then proceeded to do – to the disgruntlement of IOCs and NOCs alike. In 2007, for example, Kazakhstan forced western stakeholders in the Kashagan consortium to turn over shares to KMG. It also forced China's CNPC to overpay for PetroKaz and then later forced CNPC to sell a third of the shares to state-owned KMG at a significant loss. As one analyst observed, 'Kazakhstan has shown a willingness to play rough with both Western and Chinese companies' (Kennedy, 2010: 132).

Azerbaijan was quite assertive vis-à-vis the EU's Southern Gas Corridor: it launched a competing pipeline to the EU's pipeline, Nabucco, which ultimately led to the demise of Nabucco and to Azerbaijan taking a leading position in the EU's Southern Gas Corridor initiative.

Last but not least, Turkmenistan demonstrated its assertiveness with its rejection of Russia's Prikaspiysky pipeline routing and with the implementation of its own pipeline project. In 2014, Turkmenistan became involved in trilateral talks with Turkey and Azerbaijan over the Southern Corridor and it appears that Turkmenistan may prioritize supplying TANAP over the TCP, which could be a contributing factor to the TCP once again stalling.

The common denominator of these various acts of assertiveness is that they allow the Caspian states – that is, their authoritarian rulers – to maximize the revenues they can receive from their hydrocarbon assets. They also demonstrate that the Caspian states are confident enough of their own clout and autonomy that they are unafraid of offending or aggravating their larger and, from a military perspective, more powerful neighbours. Indeed, autonomy – particularly control over their economic destiny, which they derive from their hydrocarbon resources – seems to be at the heart of the matter for the Caspian states. We aver that, since about 2007, Caspian state behaviour no longer strictly resembles multi-vectorism. In short: in terms of energy relations, multi-vectorism, as it was practiced earlier, is over.

What has brought about this change? A theoretical analysis is beyond the scope (and word limit) of this special issue. We suggest, however, several ways of viewing the new behaviour. First, after independence, the Caspian states were poor. As Hill (2003: 244–245) posits, states with low per capita gross domestic product (GDP) per year 'lack the resources to be pro-active in international affairs [...] they also find it difficult to protect themselves from external interference. Their foreign policy is dominated by the need for economic development and financial assistance. Diplomacy in these circumstances is successful if it can widen the negotiating margin of manoeuvre of a supplicant even a little'. This description, in many ways, captures aptly the Caspian states in the 1990s and the early 2000s. Multi-vectorism is the form of 'diplomacy' these states have deployed to widen the margin of manoeuvrability. The annual GDPs of all three states, however, have risen dramatically in the past decade or so (International Monetary Fund, 2014). These states are no longer poor and have become less dependent; thus, they no longer need to follow the foreign policy approaches of poor states.

An additional way of viewing the change in Caspian state behaviour is to focus on the authoritarian elites who run these countries: according to an array of scholars, these rulers need to maximize rents in order to perpetuate their regimes and systems of patronage (cf. e.g., Denison, 2012; Franke, Gawrich, & Alakbarov, 2009; Kuznir, 2012b; Meissner, 2010). Although we do not conduct such an analysis ourselves, we acknowledge that the rulers of these countries are seeking to prop up their regimes and feather their nests, as quickly and as richly as possible. This is particularly true of Azerbaijan, where the oil reserves are only expected to last another twenty years (Guliyev, 2015; Lücke, 2010). Most likely, the shift away from multi-vectorism in energy matters is a combination of the two factors: the authoritarian rulers across the region need ever-greater revenue streams and are better able to assert control as their countries' economic performances have improved.

What could the shift away from a multi-vector approach, in energy matters, portend for the future? We are aware that energy was only one component of each state's overarching multi-vector approach. However, the energy component is, in many ways, the most powerful 'leveraging' tool the Caspian states have at their disposal. If our argument is correct – that energy relations no longer follow the logic of multi-vectorism – then this will eventually have implications for the overall strategies and foreign policies of these states. In other words, changes in how they conduct their energy relations may be a harbinger of other changes. These countries' quest for autonomy will surely not be restricted to the energy domain.

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