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RE-EVALUATING U.S. STRATEGIC PRIORITIES IN THE CASPIAN REGION:
BALANCING ENERGY RESOURCE INITIATIVES WITH
TERRORISM CONTAINMENT

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**Re-evaluating U.S. Strategic Priorities in the Caspian Region:
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Abstract

In the aftermath of September 11, U.S. strategy has shifted in the Central Asian region from protecting the sovereignty of the post-Soviet southern states to ensuring their stability in light of the dual impacts of energy development and the rising threat of Islamic terrorism. Although U.S.-Russian cooperation has made strides, particularly concerning Russian acquiescence toward U.S. and NATO military engagement in the region, geostrategic rivalry and conflicting economic goals have hindered a joint approach to initiatives regarding the region's energy development. While both agree on the goal of maximizing Russian and Caspian gas and petroleum exports, U.S. policy is increasingly prioritizing Central Asian energy prosperity as a key factor in the region's ability to contain terrorism. Development of the region's energy resources has therefore become a critical U.S. security concern. Yet, by failing to engage with Russia in a meaningful cooperation that could encourage Moscow to diversify its own energy export prospects, competition between the two powers is likely to reduce, rather than improve, the effectiveness of either in offering the Central Asian states the kind of support they need to strengthen their domestic profiles or withstand the incursion of terrorism.

Introduction

A key premise of U.S. policy toward Central Asia and the Caucasus in the early 1990s was that American strategy must focus first and foremost on ensuring that the countries of the region would maintain their independence and sovereignty. This focus had ideological appeal for American conservatives and liberals alike. For conservatives, an independent Caspian Basin would serve to countermand any resurgence of Russian power by weakening Russia's influence on its southern flank (Morgan, 1997; Ottoway, 1997).¹ For liberals, working to sustain the independence of the countries of the region had a Wilsonian appeal as authors pointed to the importance of self-determination and praised the revival of indigenous language and culture (Mandelbaum, 1994). In addition, overlaying any policy toward the region was the question of Caspian energy reserves: their promise as an alternative Western source of Gulf oil and their impact on the politics and economies of the Central Asian states.²

¹ For a closer look at the intellectual underpinnings of this realist school thinking, see Brzezinski (1997). A good critique of this school is provided by Harries (1997/98).

² For discussion of the challenges of statehood, see Olcott (2002).

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As the century turned and U.S.-Russian relations warmed, the logic of protecting the Caspian countries from Big Brother Moscow seemed to make less sense. The terrorist attacks of September 11 clinched the subtle shift. The mission was no longer primarily to hold Russia out but to ensure that forces of instability didn't creep in. Preventing the occurrence of a new failed state, especially one that might not be able to avert the infiltration of terrorist encampments, became the new priority.

This trend in thinking about the region's internal stability in light of the Taliban's rise in and around the region was already apparent even toward the end of the Clinton administration, with top officials emphasizing that the region's importance came not just from energy or economic issues but from its potential for instability and conflict (Elkind, 2000).

By the end of the 1990s, problems of human rights and corruption in Central Asia, linked conceptually to the problem of internal stability, began to receive higher profile inside U.S. policy circles, particularly weakening support inside the U.S. elite for certain leaders, such as Turkmenistan's Saparmurat Niyazov ("Turkmenbashi"). Unfortunately, U.S. foreign policy tools for influencing such issues are not only weaker than for geostrategic concerns, but to some extent a victim of conflicting considerations.

This article will first explore the nature of the shift in U.S. policy, and Russia's responses—and options—in light of the increased U.S. engagement in the region. It will then analyze the critical questions arising from the re-emphasis on Caspian energy development, and the conflicts as well as possibilities being generated within the discussion of petroleum export both east and west through a multiplicity of projected pipelines. In the final section, U.S. policy will be re-evaluated in light of closer Russian cooperation, and the likely risks should that fail.

U.S. Strategic Concerns in the Caspian region and Relations with Russia

In the months prior to taking office as National Security Adviser, Condoleezza Rice wrote about the need for domestic reform in the region, arguing that it was important to make the countries strong enough to resist Russia's unwanted meddling (Rice 2000). Dr. Rice began her tenure with negative statements about the U.S.-Russian entente, and the incoming Bush

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administration ordered the U.S. Department of State to merge its Russia desk with the European section, taken as a signal by many commentators that the new administration wished to downgrade the U.S.-Russian relationship as a focus of international relations (Rutland 2003). This thinking coincided with revelations of Russian spying in the United States, reports of Russian weapons technology proliferation, and a crackdown on independent television in Moscow.

But President Bush's personal meetings with the Russian President in the summer of 2001 raised more interesting possibilities for U.S.-Russian cooperation to replace traditional geostrategic rivalry. The new U.S. President noted to reporters after his visits with Putin that he and the Russian leader "shared common security concerns, primarily Islamic fundamentalism...that he understands missiles could affect him just as much as us" (Noonan 2001).

Changes in early U.S. Caspian policy under the Bush administration were subtle, containing a bit more rhetoric on the threat of a rise of Islamic fundamentalism to U.S. priorities for the region. Initially, this seeming shift in tone lacked any hard changes on the ground. In April 2001, Ambassador Elizabeth Jones, the Bush administration's first senior advisor on Caspian Basin Energy Diplomacy and eventual Assistant Secretary of State for European Affairs, told an audience from the region that while the United States was not ready to use force to counter Taliban influence in the region, "We look very much forward to intensifying our ability to cooperate on exactly those kind of issues, because they are a threat to not only the countries in the region but to the rest of the civilized world" (Transcript). Jones cited NATO's Partnership for Peace program and civil counterterrorism programs as the appropriate means for the U.S. to help the countries of the region to "defend themselves."

The terrorism attacks of September 11, 2001, changed many things in this equation and provided a ready-made audience for those conservatives who had always argued for deeper military commitments to the region.

Putin was the first world leader to call the White House on September 11 to condemn the attacks. In the circumstances of a common threat and warmer relations, Russia accepted an unprecedented escalation in the U.S. military presence in Central Asia, including overflight rights. On September 24, President Putin, failing to find an alternative Russian-directed

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policy in the Caspian Basin, confirmed his commitment to aid the U.S. war on terror on Russian national television, and by December, 1,500 American troops were deployed to Uzbekistan and the U.S. had signed landing-rights agreements with Tajikistan and Kyrgyzstan (Rutland 2003). Putin seemed open to the change, but many in his administration were less than enthralled (Rutland 2003).

Thus, in the aftermath of September 11, the Caspian Basin was transformed, for the Bush administration, from a region of indirect, derivative significance to a region of “strategic importance” (Blank 2003). “In the past two years, the states of Central Asia have gone from being seen as an important U.S. security interest to being regarded as a vital one...,” writes U.S. Army War College professor Stephen Blank. Similar perspectives are found in other post-September 11 essays by U.S. authors. “...Today, U.S. officials acknowledge that Central Asia’s importance as a strategic theater is not just due to its vast energy holdings, and they envisage a long-term, permanent relationship with Central Asia that was inconceivable before September 11,” noted R. Menon. “Once global terrorism originated there, the region’s importance became visible to everyone” (Menon, 2003).

Indeed, in testimony before the Senate Foreign Relations Committee in December 2001, Ambassador Jones reported on a regional tour by U.S. Secretary of State Colin Powell that “vital military intelligence” and the “welfare” of thousands of U.S. troops now lies in the quality of cooperation of local Central Asian governments. “In what only a decade ago was the Soviet Union, the United States now has thousands of U.S. military personnel working alongside their Central Asian counterparts,” Jones said. “We rely on these governments for the security and wellbeing of our troops, and for vital intelligence that has helped us to conduct such an effective military campaign in Afghanistan. Our country is now linked with this region in ways we could never have imagined before September 11. Our policy in Central Asia must include a commitment to deeper, more sustained, and better-coordinated engagement on the full range of issues upon which we agree and disagree. These include security cooperation, energy, and internal strengthening of these countries through political and economic reform” (Jones, 2001).

In line with this elevated mission in the region, President Bush has received several heads of state from the region since 2001, including the late President Heydar Aliyev of Azerbaijan, President Islam Karimov of Uzbekistan, President Emomali Rahmonov of Tajikistan, and

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President Nursultan Nazarbayev of Kazakhstan. During the latter's visit in December 2001, a joint statement released by the two presidents reiterated their commitment to "cooperate in the war against terrorism" and pledged to "strengthen joint activity in ensuring security and stability in Central Asia" (Joint Statement 2001). The statement asserted that the United States would consider "enhancing assistance programs to Kazakhstan to strengthen border security and to increase the defensive capabilities of the Armed Forces of the Republic of Kazakhstan." Uzbekistan sought a formal defense guarantee from the U.S. and failed but did receive a public statement on the U.S. concerns about its security (Blank 2003).

In the same manner that peacekeeping in Afghanistan has become an unprecedented non-European mission for the North Atlantic Treaty Organization (NATO), so NATO has become more involved in thinking about the security of Central Asia and the Caucasus (NATO Declaration 2002).

Even prior to September 11, U.S. and Russian interests intersected where the Taliban and radical Islamic fundamentalism were concerned. In October 2000, Russia and five other former Soviet republics met in Bishkek to discuss ways to guard against insurgencies in Central Asia. The meeting was prompted by battlefield successes of Afghanistan's Taliban militia along the Tajikistan border. An accord signed by the leaders of Russia, Kazakhstan, Kyrgyzstan, Tajikistan, Belarus, and Armenia established a more-detailed legal framework for the rapid deployment of joint forces against Islamic fundamentalist rebellion in the region. (*Washington Post* 2000) Central Asian leaders like President Islam Karimov of Uzbekistan also looked to Russia for help in controlling an upsurge in Islamic militancy and illegal running of drugs and arms across the region (Fitchett 2000). Yet, these efforts were all Moscow could muster in terms of holding the regional states in its strategic sphere of influence in light of the more attractive possibilities of engagement from better-supplied and trained U.S. and NATO troops.

Additionally, for Russia, the experience of the break-up of the Soviet Union has demonstrated to some extent that the region and its poverty were more of a drain on its resources than an improvement. This has tempered Russian hardliners from asserting a less cooperative policy (Kortunov, 1998). An explosion last summer on a section of the Baku-Novorossiysk pipeline in Dagestan temporarily curtailed shipments of Azeri oil via Russia

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while large-scale terrorist attacks in nearby Ingushetia posed a military challenge for the Kremlin.³

For Central Asia, certain elements of the U.S. and Russian agendas are surprisingly similar— regional stability, economic development, trade, and a reduction of human suffering and ethnic warfare. (Churfin and Sanders 1997) Neither the U.S. nor Russia benefits from having powerful nonstate actors launching terrorist attacks inside its territory. For both, the lessons of the former Yugoslavia underscore the dangers of allowing rampant ethnic separatism in the Caucasus and Central Asia to stimulate political devolution in neighboring states such as Russia, China, or those of the Indian subcontinent (Jaffe and Olcott 2000).

Thus, it is no surprise that Russia has officially acknowledged the benefits of NATO cooperation in Central Asia under certain circumstances (MTV Mir 2002). During President Bush’s trip to Russia, U.S. Secretary of State Colin Powell confirmed the U.S.-Russian cooperation in this area was going smoothly. “We have been operating in Central Asia in close coordination and cooperation with the Russians in a way that would have been unthinkable just a year, year and a half ago” (Powell 2002). But U.S. experience in the Balkans should make the United States cautious about single-handedly tackling similar problems in a more remote and difficult terrain.

Russia, internally, was conflicted in its attitudes toward the U.S. engagement so close to its backyard (Agence France Press 2002). The experience of the break-up of the Soviet Union demonstrated in concrete, practical ways how the region and its poverty were more of a drain on Russian resources than an improvement. Russia’s negative experiences in Chechnya and Tajikistan demonstrated to Russia’s elite and public alike the high costs of the simmering discontent and instability on its borders. This reality served as a key obstacle to Russian hardliners’ asserting a less cooperative policy with the United States (Kortunov 1998).⁴

But energy resources remained an area of exception where rivalry was harder to put to rest. Russian and U.S. agreement on the need for stability, trade, and development in the region appears to stop dead in its tracks when the subject of energy export corridors is raised despite

³ “Massive Chechen Attack Follows Pipeline Bombing,” *Energy Compass*, June 25, 2004.

⁴ See also Olcott (1998). For a Russian perspective, see Session of the Council of Collective Security of States Participating in the Agreement on Collective Security (2002); Sokut (2002); and “Krasnaya Zvezda,” No. 27 (2003).

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the obvious benefits that oil export revenue would bring to the Caspian region. Russian and American analysts concur that the maximum flow of energy exports from the Caspian region would serve to underpin regional stability if transparent business practices necessary for economic development were advanced (U.S.–Russia Energy Summit Executive Seminar 2003), but such attitudes have not been translated into policy cooperation.

As will be discussed in more detail below, Russia has various levers at its disposal to influence the question of energy transport corridors, and is able to play a spoiler role toward development of alternative routes. Given the opportunity, Moscow has generally failed to take in its stride U.S. preferences and initiatives in the Caspian energy sector and has instead pursued the more tangible rewards of a unilateral effort to control access to Caspian energy. By the same token, U.S. policy has also refused to yield to Russian sensibilities on energy transport preferences, with American diplomacy continuing to work assertively against certain Russian positions, with little or no acknowledgement of the more cooperative stances enjoyed with Moscow in other spheres.

Despite its interests in stability and economic development in the Caspian region, Russia has more complex considerations where regional energy supplies are concerned. Russia is itself an energy producer and exporter and, as such, is a major competitor to Caspian producers and export transit countries for the lucrative “rents” that can be reaped from resource development in the former Soviet Union (FSU). For this reason, discussion of Caspian energy, while potentially being an additional area for U.S.-Russian cooperation, has not materialized as an area of common policy, but remains an irritant to the improving, overall U.S.-Russia relationship (U.S.-Russia Energy Summit Executive Seminar 2003).

Russian policy toward the Caspian emphasizes a priority of integrating Russian and other Caspian energy resources. Indeed, the potential for Russia to serve as a conduit for rising Caspian energy exports is promising, especially if Russia develops additional alternative facilities for the export of its own oil and gas. But Russia has also used access or lack thereof to its vast pipeline and port transport network to trap Caspian energy resources, forcing Caspian production to be sold to the Russian domestic market at prices advantageous to Moscow and freeing up Russian domestic oil and gas to tap better opportunities in international markets.

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This behavior has driven the U.S. to view the transit of Caspian energy through Russia as problematic as long as state-controlled monopolies such as Transneft and Gazprom continue to promote this pattern. As a result, U.S. policy continues to emphasize private-sector involvement in oil and gas infrastructure in the region and enhanced competition among Caspian transport routes, as the linchpin for development despite any possible economic synergies that might have been developed by supporting additional Russian routes.

U.S. Ambassador Steven Mann, Senior Advisor, Caspian Basin Energy Diplomacy, speaking at a Baker Institute/Carnegie Moscow Center conference in Moscow, pointed out that current U.S. policy is an outgrowth of problems in the commercial relationships between Russian state export monopolies and the Caspian producers. “Our policy arises out of the fact that the economic conditions that Transneft and Gazprom have created have given a powerful push toward the development of alternative pipelines,” Mann stated. “Our policy is not an anti-Russian policy. It is an anti-monopoly policy.” Ambassador Mann noted that Turkmenistan rejected the Transcaspian gas pipeline project, which proposed a price for Turkmen gas of \$53 per 1,000 cubic meters and was left with “no good alternatives” to selling its gas to Gazprom for two-thirds that price (U.S.-Russia Energy Summit Executive Seminar 2003).

Deputy Foreign Minister of the Russian Federation Viktor Kaluzhny publicly disagreed with this characterization of Transneft and Gazprom, maintaining that both recognize the complexity of being international actors, as both were vulnerable to the will of transit countries such as Ukraine, Bulgaria, and Poland. Kaluzhny told the same seminar, “I’d like the issue of ‘monopolism’ to be considered objectively. Because today, each of us is a monopolist in his own family, in his country, as a citizen. This concept must be treated very, very carefully, in a balanced way, and it should not be politicized.”

Although the U.S. and Russia do appear to agree in public pronouncements that maximizing exports from Russia and the Caspian is an important goal, the bilateral dialogue has yet to lead to coordinated discussion on how new Russian routes to Murmansk and to the Adriatic might affect the outflow possibilities for Caspian oil. This may be, in part, because Moscow is disingenuous in its claim to be an energy supply ally of the U.S. where Caspian exports are concerned because of the substantial economic and political benefits of controlling Caspian outflows. U.S. policy may simply respond to this fact or it might also be trying to capture

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political leverage in the Caspian by serving as the diplomatic savior to independent Caspian energy flows that bypass Russia.

The Role of Energy in the New U.S. Caspian Equation

Prior to September 11, the region's vast energy resources were a critical variable cited and utilized by advocates of greater U.S. involvement in the Caspian region. Secretary of State Madeleine Albright, in an address before the Senate Appropriations Committee's Foreign Operations Subcommittee, noted that it was "strongly" in the U.S. national interest to assist these "strategically located" and "energy-rich" countries (Bhatty and Bronson 2000). Other U.S. diplomats speaking on U.S. goals for the region also place energy security, diversification of supply outside the choke points of the Strait of Hormuz on the Persian Gulf and Turkey's Bosphorus, and opening access to promising investment opportunities for U.S. companies high on a list that includes vaguer references to conflict resolution and state building (*Federal News Service* 1997).

But over time, analysts and commentators have demonstrated that the oil potential, while significant, had been overblown and would never be sufficient to serve as a replacement to the Middle East's (Jaffe and Olcott 2000; Olcott 1998). In light of disappointments in resource exploration in Azerbaijan and the slow pace of development of finds in Kazakhstan, the salience of the region might have fallen precipitously had international terrorism not become the major focus of the Bush administration (Cooper and Pope 1998).

Post-September 11 strategic considerations and concerns about the rise of terrorism and Islamic fundamentalism in the Caspian region have had serious implications for the importance of Caspian energy resources in U.S. thinking. No longer just a means for diversification away from dependence on the Middle East, the Caspian energy resources became critical for the economic health (and thereby counterterrorism potential) of the states of the region. As Ambassador Jones aptly articulated, "The terrorist threat emanating from Afghanistan reinforces our view that underdevelopment and repressive, anti-democratic regimes provide certain conditions that terrorists and other extremists exploit...Development of the vast Caspian energy reserves and their reliable export to global markets will in large part determine the ability of Central Asia to achieve economic independence and improve the standard of living of its citizens" (Jones 2001). Thus, in one fell swoop, U.S. interests in the

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resource development and export routes of Caspian Basin petroleum were linked to U.S. strategic concerns about terrorism, and Caspian oil export routes moved to the front burner of U.S. diplomatic concern.

While President Bush himself congratulated the partners of the Caspian Pipeline Consortium (CPC) on the occasion of the commissioning of the Russian pipeline, the U.S. continues to favor the Baku-Tbilisi-Ceyhan (BTC) line even for Kazakhstan's oil—a move not welcomed by Russia, since it would divert oil from Russian pipes. “There are good commercial reasons for [Kazakhstan's] linking into the BTC system ahead of any other,” Ambassador Mann said in an interview. “BTC is soon to be an actual line” (“U.S. Seeks Regional Prosperity....” 2003). As such, the BTC pipeline is scheduled to receive financing support from the U.S.-based International Finance Corporation (IFC) and the London-based European Bank for Reconstruction and Development (ERBD) (Bush and Nazarbayev 2001).

The vital interest of maintaining good relations with NATO ally Turkey also dictates that U.S. policymakers give Caspian energy routes via Turkey high priority. Turkey has actively lobbied the U.S. and its oil companies to help it find a solution to what it terms unacceptable shipping congestion through its environmentally sensitive Bosphorus strait, which currently serve as a passage for the transport of over 2.8 million barrels of oil a day (b/d) (Nixon Center 2004). Turkey argues that increases in Caspian and Russian oil exports could potentially bring tanker traffic through the Bosphorus to dangerous levels, endangering the population of Istanbul, which borders the waterway (Soligo and Jaffe 1998). The matter is being investigated by several world bodies, including the International Maritime Organization (IMO). Turkey has already sparred with Russia over the issue of accident insurance for tankers passing through the strait.

Limits to the capacity of the Bosphorus were starkly demonstrated in the winter of 2003–4. Rising Russian exports could not be adequately accommodated as a result of severe winter storms worsening already increased congestion from new security regulations in the strait, which restricted Russian loadings. Delays of up to 20–25 days for oil shippers through the Bosphorus were reported (Blas and Hoyos, 2003). Russia recently has acknowledged that the problem of congestion is starting to add to the overall costs of shipping oil through the strait,

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following more stringent tanker regulations introduced by Turkey in 2002. This congestion is costing Russian oil exporters about \$400 million a year.⁵

Russian state pipeline concern Transneft approved earlier this year the company's participation in a 193-kilometer Bosphorus bypass that would link the Black Sea port of Kiyikoy with the port of Ibrikbaba on the Aegean, but the Russian energy ministry hinted over the summer that it considers the spur a matter for investment by Caspian producers whose increased exports will aggravate the problem of transit at the strait (ibid). Houston-based Thrace Development Co. is pushing for an alternative 200-kilometer bypass pipeline to transport Kazakh oil from Igneada on the Black Sea to Saros Bay in the Aegean Sea.

Turkey's concern for the future of the Bosphorus strait led it to lobby for the construction of the Baku-Ceyhan pipeline, now slated for completion in the second half of 2005. Since 1995, the U.S. Government has assertively backed this routing, not only to show support for Turkey, but also because it believes that such a pipeline will enhance economic and political ties in the region and cement its independence from the undue influences of Russia and Iran. The United States continues to adamantly block any Caspian routing via Iran, despite the obvious commercial advantages of lower costs, because of concerns about Iranian foreign policy. "The U.S. has been very clear about what our immediate concerns with Iran are. Support for terrorism, pursuit of weapons of mass destruction and its negative influence on the Middle East peace process," noted Mann in explaining the U.S. opposition to Iranian routes ("U.S. Seeks Regional Prosperity 2003).

The U.S. has also backed a policy of multiple pipeline routes, hoping to diversify outlets and enhance security of exports. Ironically, however, a key problem for the success of the multiple pipeline routes strategy is the fact that not enough oil has yet been discovered to justify these routes' construction (Aliriza 2000). Even the favored 1 million b/d BTC line is expected to open only partially filled. Production at the three Azeri fields that will principally feed the line will likely use less than half of its capacity (*Oil Daily* 2003) and are only expected to reach their peak potential of 1 million b/d by 2010, if then.

⁵ "Moscow says Bosphorus Congestion Not Its Problem" Energy Compass, June 11, 2004.

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Even if optimistic forecasts that put Azeri output at 1 million b/d by 2010 and Kazakhstan's oil production at 3.5 million b/d by 2015 bear out, there may not be sufficient export volumes to support more than one new line beyond Baku-Tbilisi-Ceyhan. The commercial viability of a larger number of new pipelines will likely depend on the availability of supplemental volumes of Russian crude oil. This could mean that the chances of building another Western route via Eastern Europe for Caspian oil would preclude a line to China or vice versa unless dramatically more oil is discovered.

Russia similarly may have to pick and choose which export routes it can fill in the long run, with proposals to build lines to Asian markets also subject to debate about whether there will be sufficient line fill.

For Caspian producers, the high costs of production and the long distances to markets mean that the highest returns will be earned on sales to Europe, suggesting that if only one more line can be justified, it is most likely to be one to the West unless Asian buyers offer financial incentives to counter commercial economics (Soligo and Jaffe 1998). The westward projected flows of incremental FSU exports are dictated by the economics of transporting crude. The pipeline infrastructure from the FSU is already in place, with only a few additions being necessary to carry the projected increase in supply. For the Caspian region, political as well as economic factors are relevant. Political impediments exist to southward routes through the Gulf via Iran or through the proposed Central Asian Oil Pipeline Project (CAOPP) that would traverse Afghanistan and Pakistan.

The problem of the Bosphorus, discussed above, may create an opportunity for countries sandwiched between the Black Sea and European markets to serve as a bridge between producers and consumers and earn transit tariffs in the process. This potential has spawned a number of active route proposals, designed to serve as a bypass to the Turkish strait. Several of these proposals involve shipping oil across the Black Sea, transmitting it to a Mediterranean port by pipeline, and then loading it onto a tanker for transport to a final destination. The shortest routes connect the Bulgarian port of Burgas on the Black Sea with either Alexandropolis in Greece or the Albanian port of Vlore.

Ukraine and Romania both have offered alternative proposals that would transport oil from a Black Sea port to European markets by pipeline only. The Romanian proposal is to build a

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pipeline from the Black Sea port of Constanța across the southern part of Romania through Yugoslavia and Croatia, finally terminating at Trieste. Proponents of this route note that the infrastructure for transferring oil from ship to oil terminal already exists at Constanța. This reduces the level of investment needed to build a 1 million b/d line.

The Ukrainian route involved tapping an underutilized pipeline from the Black Sea port of Odessa to Brody and continuing on to Poland and other Central European destinations. But the route has languished on commercial grounds, despite some U.S. diplomatic prodding, and Ukraine has been tempted by a Russian offer to reverse the pipeline to move Russian oil southwards to Odessa rather than leaving the line unutilized (Helmer J. 2004).

The economics of these routes compare relatively favorably with the already expensive Baku-Tbilisi-Ceyhan route (see Table 1), or the alternative to shipping oil east to China. From a U.S. perspective, concerns about the future of Central Asia, especially where the war on terror is concerned, might argue for fostering tighter cultural and economic links between the Caspian oil producers and Eastern Europe, implying that the U.S. should get out front and support an East European alternative as the next-most-favored option. A region more tightly tied in with Europe and NATO might be more successful in combating radical Islam or other extremist movements.

But there are also commercial questions of market saturation in Europe to consider. Sluggish growth in European oil demand has kept alive proposals for lines to Asia. In fact, Europe's market oversupply has already pushed Russian oil arriving in the Mediterranean to facilities taking it to Asia in 2003–4. A 1 million b/d Israeli pipeline from Ashkelon to the Red Sea port of Eilat has been used to move Russian Urals crude to Asia, demonstrable evidence that the pull of rising Asian demand has some salience for the export options of the former Soviet region (*Oil Daily* 2003).

Oil requirements for major Asian consumers are forecast to increase by 5 million b/d between 2000 and 2010 and by an additional 5 million b/d between 2010 and 2020, according to the International Energy Agency (International Energy Agency 2002). If pipeline projects from the FSU point primarily toward the West, Asian countries will have to satisfy the growth in their demand for crude almost exclusively with imports from the Middle East, which will have to yield market share to Russia in Europe to avoid severe price competition. From the

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purely economic, free market perspective, price arbitrage is likely to direct Middle East supply to Asia, given the cost advantages of moving oil from there in ultra-large tankers compared with the lengthier, more-costly trip to a crowded European market.

But the existence of a price premium in Asia (a price differential between Asian prices and those prevailing in Europe) (Soligo and Jaffe 2000) means that the higher costs of transporting Caspian oil to Asian markets can at least be partially offset by the higher Asian prices, potentially creating opportunity for FSU oil to move east, if and when European markets become oversaturated. Besides the Israeli pipeline, alternative routes for Russian oil shipments to Asia might also become more attractive.

Russian exports are expected to increase by 2 million b/d between 2000 and 2010, according to most forecasts, or by 3 to 4 million b/d by 2015 under optimistic assessments. The increase in Russian production will come primarily from Timan-Pechora and Eastern Siberia. Private interests have promoted a pipeline from Timan-Pechora to Murmansk, a distance of 3,600 kilometers. But an Asian route has also been proposed that would bring oil from the Irkutsk area in Eastern Siberia either to Daqing in China (600 million b/d) or to the Russian Pacific port of Nakhodka (1 million b/d). Since Eastern Siberian reserves are not considered sufficient to supply both alternatives, Japan and China have been competing over which route should take precedence.

It is possible that eastern shipments wouldn't be limited to Eastern Siberian resources. A pipeline already exists linking Western Siberian fields to Angarsk, near Irkutsk. Oil is being shipped to supply refineries in the far eastern part of Russia—using a combination of this pipeline and, thereafter, railcar. While it is true that production in the Western Siberian fields is not expected to increase significantly, crude from Timan-Pechora could be funneled into the western-oriented pipeline at Perm, replacing crude that would be diverted to the east.

Any shift eastward in exports of western Russian production to supplement Eastern Siberian production might rule out the need for the expensive pipeline to Murmansk, which was promoted as a way to increase commercial shipments to the United States. While the Bush administration has publicly supported the Murmansk option, no U.S. financial aid for the route has been forthcoming, and U.S. Secretary of Commerce Donald Evans has stated that although U.S. interests favor an increase in the amount of Russian oil coming to international

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markets, it is not a U.S. priority that the added oil come specifically to the United States (U.S.-Russia Energy Summit Executive Seminar 2003). Private Russian companies had been promoting a route to Murmansk as a means to increase commercial shipments to the United States. That pipeline plan met resistance from state-owned Transneft, which has recently unveiled plans to consider a \$6 billion, 1.2 million b/d pipeline from Western Siberia to the port of Indeika on the Barents Sea for deliveries to the United States.⁶

Cost comparisons for various routes are difficult because of the many variables that affect the numbers: throughput (diameter of the pipe), terrain, and length of pipeline. Terrain, in particular, can vary widely and significantly influence the construction cost of a pipeline. But while, by most rule-of-thumb measures, Asian routes are clearly more expensive than Western export options (see Table 1), Russia might still benefit from diversifying its options, given that Middle East producers have shown a penchant to hold market share in the U.S. and Europe despite the profitability of selling more oil to Asia (Soligo and Jaffe 2000).

Table 1: Pipeline Routes				
	LENGTH	CAPACITY	TOTALCOST	COST/b
ROUTE	Kilometers	Mb/d	US\$ billion	US\$/b
Murmansk	2,500	2,000	2.50	0.76
Murmansk	2,500	2,000	4.00	1.21
Ukhta-Murmansk	3,600	2,000	4.00	1.21
Baku-Tbilisi-Ceyhan	1,700	1,000	2.90	1.75
Baku-Tbilisi-Supsa	850	900	1.30	0.87
Baku-Tbilisi-Supsa	850	1,500	1.60	0.65
Burgas-Alexandroupolis	317	600	0.70	0.71
Burgas-Vlore	915	750	0.80	0.65
CNPC to China	3,000	1,000	3.50	2.12
CNPC to Iran	1,200	250	1.10	2.66
CAOPP to Pakistan	1,667	1,000	2.70	1.63
Irkutsk-Daqing	2,247	600	2.00	2.02
Irkutsk-Nakhodka	3,884	1,000	6.00	3.63
Irkutsk-Nakhodka	3,884	1,000	8.00	4.84
Azerb/Turkmen/Kharg	2,150	1,500	3.00	1.21
Azerb/Turkmen/Kharg	2,150	900	3.00	2.02

Note: Cost estimates are based on an assumed 30-year life and 20% rate of return. Costs do not include right-of-way acquisition and transit fees. © 2004 Jaffe and Soligo

⁶ "Transneft Unveils Northern Pipeline Plans," *Energy Compass*, June 25, 2004.

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A shift by Russia to promote eastern export routes would benefit the Caspian countries by limiting the competition for space along western routes to Europe. This fact could be the basis for creative thinking in U.S. policy. The United States could please China and/or Japan by favoring and supporting an Asian export route for Russian crude, while at the same time, reducing the Russian–Caspian rivalry for space via the Bosphorus. Even a pipeline to Murmansk or Indeia could relieve some of the pressure on Bosphorus shipments. But so far, the United States has failed to get out from under its old views and consider what new options could be attractive, given post-September 11 geopolitics, especially where U.S.–Russian friendship is concerned. A U.S. policy backing alternative Russian routes as a means to free up more options for Caspian exports has not been forthcoming.

Russia, for its part, suffers from the same narrow-mindedness and lack of creativity. Its focus has remained squarely on controlling exports from the Caspian, with little concern about whether that strategy pushes the Caspian countries into the arms of the United States or whether it blocks exports to the extent that it damages overall economic development and oil revenue earnings in the Caspian countries, creating just the kind of instability it should be seeking to prevent. Thus, both the United States and Russia are missing an opportunity to tap common interests where overall energy export balances from the FSU are concerned.

Conclusion: U.S. Policy Options and Challenges

Post-September 11, 2001, the United States has come to see that its interests in the Caspian region are more fundamental than derivative, in contrast to the situation that existed in the 1990s. As Menon concludes, “The American strategic emplacement in Central Asia will probably remain important to the war on terrorism” (Menon 2003). He adds that the American presence in Central Asia will also likely prove long-lasting because “the regimes in the region have good reason to draw the United States into their internal affairs.”

This, however, is where the problem lies. Central Asia’s autocratic leaders have every incentive to harness American support to strengthen their grip on power and eliminate political contenders—be they the radical Islamists that are feared in the United States or democratic opposition movements that could promote plurality in society. By linking the U.S. military to the survival of their generally corrupt regimes, these leaders could entrap the United States

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into the situation it now faces in many places in the Middle East, where America is isolated from not only its democratic values but also, increasingly, from local populations that view it as bolstering regimes that pillage national treasuries, foster social inequities, and regularly resort to repression as a tool of governance. In this fashion, the U.S. effort to promote stability in the region through its military presence and commercial alliances with current governments could sadly have the opposite effect, raising serious questions whether the current U.S. pursuit of security through operations in the region will be complicated by “the region’s traditional ethnic rivalries, fueled by a growing competition for land and water” (Rumer 2002).

Clearly, sufficient resources, especially beyond military aid, targeted at building civil society, have not been provided so far, given the magnitude of the problems that face the region. Soft culture involvement must be more tangible and substantial. And it should be followed-up with concrete programs in public diplomacy. If the U.S. focuses solely on military bases, training for secret police and border patrols, and wrangling over energy resource development, then certainly the result will be less than what is intended from the closer interaction.

Another key focus for involvement in the region should be to pull it into the European sphere through cultural, political, and economic exchanges. Eastern European energy deals and energy transportation ties can serve as an important bridge. Encouragement of economic reforms and transparency in response to the carrot of favored trade status with Europe and beyond could also serve constructive ends, both for the people of the region and its overall security. This can be facilitated, not only through direct exchanges between the United States, Europe, and the Caspian countries, but also by helping Russia diversify its energy export routes to avoid congestion and competition for European routes with nascent Caspian producers. Russia’s urge to control Caspian energy and keep the rents for itself remains a problem, but might be best addressed by diplomacy that emphasizes the common interests in seeing the Caspian countries succeed. Should Russia’s industry have such success at home sending production from newly developed oil and gas fields in Timan-Pichora and Eastern Siberia to Asia, it is less likely to focus on trapping Caspian energy production as a means to sustain hard currency earnings from its own limited exports from aging fields.

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Finally, the United States must consider more carefully how its actions in the Caspian region are affecting Russia's strategies. U.S. basing rights and arms sales that drive similar, uncoordinated, and rival Russian efforts create a situation that misses the opportunity for the two powers to work together to stabilize the region for common ends. Neither the United States nor Russia is likely to succeed in excluding the other from the region. A more realistic stance therefore is needed by both. If competition between Russia and the United States can be reduced, precedents exist where the two powers have collaborated well in other regions of the world on resolution of interstate conflicts and multinational assistance programs. Cooperation in the Caspian region could focus on important areas such as education, job creation, and medical assistance. Such social assistance programs can lessen the appeal of radical leaders by providing an alternative window of hope for the populations of the Caspian region.

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