

“Eurasian Pipelines and East Asia: A Path to
Integration or A Marriage of Convenience”

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EURASIAN PIPELINES: THE POLITICAL AND ECONOMIC GORDIAN KNOT FOR RUSSIA AND KAZAKHSTAN?

During my presentation I plan to consider the following questions: What do pipelines to East Asia mean for Kazakhstan? How will they affect Kazakhstan's relations with Russia, as well as with China, Japan, and Korea? And how does the East Asian direction of Kazakhstan's oil and gas transportation policy change the geopolitical landscape in Central Asia?

Kazakhstan's geographical position in the center of Eurasia, the relatively high price of extracted oil, and the insufficiencies of the existing system of internal pipelines place the country in difficult competitive conditions. At the present time, Kazakhstan is planning to become one of the world's seven largest exporters of oil and gas. This will require more export pipelines and possibly, a diversified customer base as well.

In 2005, 61.45 million tons of oil and 26.3 billion cubic meters of gas were extracted from Kazakhstan's portion of the Caspian shelf. In 2005, oil exports totaled 52.6 million tons. The development of Kazakhstan's oil and gas industry is inextricably linked to the resolution of the problem of delivering energy resources to external markets, and therefore the issue of transport acquires great importance.

The Caspian is a kind of “geopolitical gate” or part of a geopolitical axle, and it should not be considered separately from the geopolitical situation in neighboring regions. The development of pipeline systems in the Caspian region is defined by two basic groups of factors: 1) economic-geographical factors and 2) geopolitical factors conditioned by the interests of Caspian states, countries in the transit zones, and regional and international centers of power. For the time being, political interests have prevailed over purely economic interests, and the main transport routes have become instruments of political pressure.

Now, a consideration of the issue of transporting Caspian's oil and gas to East Asia makes it necessary to reconsider the interests of the players in the Caspian and the possibility of including new players.

Kazakhstan currently exports its oil by a number of routes. These are the Caspian Pipeline Consortium (CPC), Atyrau-Samara, and Atasu-Alashankou. Shipments are also made by tanker from the port of Aktau. The existing and emerging energy routes make Kazakhstan a potentially valuable ally to both Europe and Asia and possible, to the US as well. Kazakhstan has maintained a "multi-vectored" development of its export routes. Attempting to overcome its isolation, Kazakhstan actively seeks routes by which to enter the world market. Kazakhstan's position is that it will export its raw materials by those routes that are economically profitable for producers as well as for consumers.

What do pipelines to East Asia mean for Kazakhstan?

In the past few years, the issue of transporting Kazakhstan's oil to East Asia has acquired great significance. Transport routes such as CPC and Baku-Ceyhan take Caspian oil to Western European markets. In these markets, Kazakhstan's oil will enter into price competition not only with traditional suppliers (Middle East, North Africa, North Sea), but also with the "new" oil from northern Russia.

In order to avoid this, it was considered advisable to send part of Kazakhstan's oil and gas to China and other countries in East Asia. According to expert forecasts, during the next 10-20 years, demand for oil in Asia will grow at the fastest rate in the world. This economic growth will cause a rapid growth in the demand for energy sources. From the Kazakhstani experts' point of view, the region could play a more important role in the development of Caspian oil reserves, and the countries of East Asia could become a distinctive niche for new Caspian oil.

Therefore, for Kazakhstan East Asian routes represent the creation of alternatives to the sale of Caspian oil in the West and the provision of real diversification in the transport of Kazakh oil and gas. It provides the expansion of Kazakhstan's export possibilities and the weakening of transit dependence on Russia. The diversification of routes for Caspian oil through the

development of pipelines to East Asia contributes to the understanding of Kazakhstan as a “Eurasian power”. Also Central Asia and East Asia will be joined in a unified energy market. For Kazakhstan, the most suitable route for a thrust into this region is a pipeline to the Xinjiang-Uighur Autonomous Region, designed to satisfy the Chinese economy’s growing demand. It is expected that cooperation in the oil and gas sector between Kazakhstan and China will become the dominant aspect in their relationship during the 21st century.

The Western Kazakhstan - Western China route presumed the construction of an oil pipeline along the route Atyrau-Kenkiyak-Kumkol-Atasu-Druzhba and provides an entry for Caspian oil into the markets of China and other countries in the Asia-Pacific region. The Kazakhstan-China pipeline from Atasu to Alashankou became the first pipeline export route in the CIS transporting oil and gas to the Chinese market. Moreover, this is Kazakhstan’s first oil pipeline that does not cross through the territory of Russia, which objectively lowers the country’s dependence on Russian policies. At the first stage of realization of the Kazakhstan-China pipeline project, many critics expressed apprehension concerning Moscow’s discontent. Nevertheless, now it can be said that the construction of the pipeline is an example of successful bilateral cooperation between the neighboring countries.

Kazakhstan proposed that Russian companies participate in filling the pipe, using the Omsk-Turkmenabat oil pipeline (formerly Charghou), which was built in the Soviet period. At first, none of Russia’s largest companies had been willing to repair and use the main artery, which is capable of carrying 5 million tons of oil per year. But now some Russian companies (Rosneft, Transneft, Russian-British TNK-BP) announced about possibility of their participation in filling the pipe in the next year.

Kazakhstan is also home to substantial gas deposits. Proven gas reserves of Kazakhstan are about 3,3 trillions cubic meters and perspective gas reserves are 6-8 trillions of cubic meters. According to the Kazakhstani Program of Development of Gas Sphere for the years of 2004-2010, the most perspective and realistic export markets for Kazakhstan’s gas are Russian, Eastern and Western European and Asia-Pacific region’s markets.

In the area of transporting Kazakh gas, some prospective directions are being considered today. First of all, there is the Western direction: through Russia via Gazprom's system and through the Caspian Sea to Turkey following the realization of the gas pipeline project Baku-Tbilisi-Erzurum. Another prospective direction being considered is the Eastern route, by which deliveries of Kazakh and, possibly, Turkmen and Uzbek gas could be made to the Chinese market. Today a joint study of various possibilities for building a Kazakhstan-China gas pipeline is being conducted. This gas pipeline is expected to be in operation by 2008. At the present time, the possibility of Kazakhstan's participating in the construction of refinery to Dushanzi (China) is also being studied.

How will they affect Kazakhstan's relations with Russia?

Russia defines itself the reliable supplier of energy resources to the Asian region. This idea was stressed at the Asia-Pacific Economic Cooperation Organization's Hanoi summit. On the issue of exporting their energy resources to East Asia, Kazakhstan and Russia are competitors. As even Russian experts wrote in 2003: "Kazakhstan successfully took advantage of Russia's indecision about building the oil pipeline Angarsk-Daqing, opportunely persuading China to finance the construction of the Western Kazakhstan-Western China oil pipeline".

In this connection there is a question – how should Russia and Kazakhstan act in the Asian markets – as competitors or partners? At present the partnership between Kazakhstan and Russia has a strategic character. However it is necessary to tell that an idea of mutual partnership is more emphasized by Kazakhstani authorities and experts than by the Russian ones.

Kazakhstan's experience shows that the republic has more or less successfully resolved its difficult issues with Russia on the basis of negotiations and compromise. The development of oil and gas pipelines to East Asia in this case should not be considered a Gordian knot in relations between Kazakhstan and Russia. The realization of the oil pipeline to the West is an example of the change in Russia's energy policies toward Kazakhstan, in which Russia initially counted on the methods of pressure, and then reconsidered its policies.

The Caspian is not the primary source of hydrocarbons for Russia; around 85 percent of Russia's fields are located in Western Siberia. Throughout the 1990s, Russia's policies toward the Caspian underwent noticeable changes. Right down to the mid-1990s, Moscow's activities were dominated by power politics, aimed at the maintenance of its influence over Caspian states, as a result of which arose a strategy of not allowing the development of hydrocarbon resources by any government in the region, including Russia. But subsequently the Russian position in relation to the Caspian began to change. Realizing that it was losing access and control over the richest natural resources, which also had strategic significance, and also that the presence of Western oil companies, as well as those from China and Turkey, was expanding in the Caspian region, Russia began to move away from its original position. Russia's concern about losing its influence in Central Asia also related to the transport of oil. The transport factor began to acquire paramount importance in Russia's oil politics toward the Caspian states.

The countries in the Caspian region feel their transit dependence on Russia. For Russia, the appearance of competitors for the development of Caspian oil and gas resources is becoming a real problem. However, until recently, the situation in the Caspian region developed in such a way that a large part of the oil was extracted by Western companies, while the primary means of delivering Caspian hydrocarbons were located in Russia.

How will pipelines to East Asia influence Kazakhstan's relations with China, Japan, and Korea? How does the East Asian direction of Kazakhstan's oil transportation policy change the geopolitical landscape in Central Asia?

The countries of East Asia are striving to consolidate their positions in the Caspian and to create a serious alternative to Middle Eastern oil. In the past few years, Japanese oil companies have actively announced their presence, participating in the realization of an array of energy projects, including the development of a shelf in Kazakhstan's sector of the Caspian Sea.

In addition to China and Japan, Korean oil companies also have increased their involvement. In September of this year, Kazakhstan and South Korea signed an agreement on the joint

exploration and development of the prospective Jambul oil field in the Caspian Sea. As a result of the coming development of this oil field, Seoul has gained the possibility of importing up to 500 million barrels of crude oil. In accordance with the conditions of the bilateral agreement, the share of the Korean National Oil Corporation (KNOK) will total 27 percent in the first stage and then will grow to 50 percent if the oil reserves turn out to be sufficiently large.

For Kazakhstan, the most important aspect of partnership is the use of East Asian experience and technology for the development of infrastructure for production in the oil and gas field and the construction of industrial refining complexes. The Kazakh leadership's interest in East Asian countries is aroused by the possibility of attracting advanced technology into Kazakh industry and by the search for new sources of investment in the oil and gas field. However, the delivery of Caspian oil to Asia today faces big economic obstacles.

It is necessary to note that the most realistic alternative source of oil and natural gas in the Pacific region is the Russian island of Sakhalin. Russian companies already have long worked out plans for the development of this prospective market, developing oil and gas fields on Sakhalin and discussing the possibility of building an oil pipeline from Siberia in the direction of Japan, to China, and further to the southeast. However now Russia is facing difficulties in the Sakhalin Island oil projects.

Summing up, one can say that East Asian countries already are making concerted efforts to establish themselves in the Caspian region. Instability in the Middle East, the growing demand for energy resources—all of this placed before East Asia the task of diversifying its sources of imported energy. The significance of Caspian states in the foreign policies of East Asian countries, and their presence in the Caspian region, will only grow.

Kazakhstan and Russia need to expand their export routes for oil and gas, to attract major investment, and to acquire new technology. Of course, the Russian energy sector is not as open to foreign companies as is Kazakhstan's.

The countries of East Asia need energy resources and are prospective consumers of Kazakh and Russian oil and gas. The East Asian countries have sufficient financial means and the newest technologies. All of this is an objective precondition for the development of cooperation in the energy sphere between Kazakhstan and the countries of East Asia in recent years.

The construction of oil pipelines to East Asia may really influence the geopolitical situation in the Central Asian-Siberian region. As the experts pointed out, the Kazakhstani - Chinese pipeline undercut the geopolitical significance of the Washington backed Baku-Ceyhan pipeline. In choosing export routes, Kazakhstan has to conduct a policy of balance among the interests of the three leading players in the region: Russia, China, and the United States. The active penetration of China, Japan, and now Korea into the region's energy sector holds the prospect of strengthening their energy security, in the process weakening the levers of pressure on Kazakhstan both from the United States and from Russia. Again and again, Kazakhstan will have to demonstrate its ability to maintain a balance among the geopolitical powers in the process of realizing its national interests.