

**ENERGY FACTOR
IN RUSSIA-CENTRAL ASIA RELATIONS,
1991-2007**

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DECLARATION

I declare that the dissertation entitles "*Energy Factor in Russia and Central Asia Relations. 1991-2007*" submitted by me in partial fulfillment of the requirements for the award of the degree *Master of Philosophy* of Jawaharlal Nehru University is my own work. This dissertation has not been submitted for any other degree of this or any other university.



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CERTIFICATE

We recommended that this dissertation may be placed before the examiners for evaluation.



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Chapter 1.

Historical background of Russia- Central Asia relations

The energy needs of the world are growing fast, and competition for energy is on the rise. Energy resources in 21 century, especially oil and natural gas, influence not only business environment, but also international politics and geostrategy. The disintegration of the Soviet Union caused big changes in international system. Appearance of five new states: Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan - marked the beginning of formation of the Central-Asian subsystem of international relations. This new region became strategically important area in the foreign policy of Russia, China, India, Iran, Turkey, Pakistan, USA and the European Union; although during the Soviet period Central Asia did not play any important role in the world and was simply ignored by western strategists.

The outside world has in the 21st century come to regard Russia and the Commonwealth of Independent States (CIS) as increasingly important sources of energy for other countries for reasons of energy security and energy diversification. Central Asia has also become important because of energy resources, which have not been fully developed and tapped, and because of rich raw materials, strategic location and transportation routes.

Kazakhstan possesses the largest oil reserves in the region and, according to the U.S. Department of Energy (DOE), has between 9 and 17.6 billion barrels of oil, as well as having 65 trillion cubic feet of natural gas. (*Jim Nichol, 2004*) Turkmenistan has 101 trillion cubic feet of natural gas, according to the DOE, and has one of the largest gas fields in the world. Uzbekistan is the region's largest producer and exporter of cotton, and gold production there is one of the highest in the world. Kyrgyzstan produces gold, wool, and several minerals that it exports around the world. Tajikistan mines a large amount of aluminum and is second only to Uzbekistan in cotton exports from the region. (*Jim Nichol, 2004*)

As was mentioned above, Central Asia is strategically important not only because of natural resources, but also because of its role as a transportation corridor (the Silk

Road): North to South (from the Baltic region to Iran, Pakistan, and India), and East to West (from China to Europe).

Central Asian states currently have no capabilities to build their infrastructure without foreign help. Because Central Asia is landlocked, it is dependent upon other countries for the transportation of its resources, flows of international trade and finance. Due to the immediate need for improvements in infrastructure and for foreign investment, Central Asia must rely on the outsiders for assistance.

Russia was interested in Central Asia from Tsarist and then Soviet times. It has had an ongoing desire to be the regional hegemon. Russia still is trying to remain the hegemon in Central Asia and is concerned with the U.S. influence in the region. Russia always has considered the region as a strategic buffer against outside threats and base for supply raw materials; consequently, many strategic interests compel Russia to retain Central Asia within its sphere of influence.

But after the Soviet Union disintegrated, Russian influence initially decreased in this region due to a variety of Russian domestic concerns, and because Moscow's foreign policy have not consistently focused on Central Asia until recently. Its foreign policy orientation was primarily toward the West and the US. Only when outside powers started play more active role in the region, Russia recognized the need to increase its involvement in Central Asia, in the interest of the stability of newly independent states, on which depends its own security

Russia has always remained the geopolitical alternative for Central Asian states, even while they seek to diversify their economic, energy, security and military cooperation with other major powers, according to Ajay Patnaik. (*Ajay Patnaik, 2008*) This research seeks to argue that Russia today is the most significant player in Central Asia, and one of the major reasons for this is Russia's strong involvement in the energy sector of Central Asia

Today Russia and Central Asian countries are entering to new phase of closer economic cooperation. Present economic interdependence of these countries can stimulate and intensify cooperation through different activities. Russia signed several economic, political, security and foremost, energy agreements with Central Asian states. Russia and Central Asia relation has significant economic impact for both sides. The

Russia has ongoing business enterprises and governmental interactions with the countries of Central Asia, indicative of a future interest in investment in the region. As a region, Central Asia needs not just to maintain but also to increase its cooperation with Russia if it is to help its struggling economies and establish regional stability

Russia and Central Asia relations: historical overview

Between 1864 and 1884, the Russians took control of all the important cities of Central Asia almost without a struggle. The vast majority of Central Asians were Muslims. Most of the population spoke Turkic, some spoke Iranian languages, and Iran had a predominant cultural influence over them all. When the Russians appeared in Central Asia as conquerors, they were complete aliens. The Tsarist government believed in the overwhelming superiority of its own culture. Russians insisted on using their own language, despised local customs and culture.

The Tsarist government used Central Asia for strategic and economic benefit. Central Asia served the Russians in stopping a British advance from India. The government built a railroad connection to Russia and turned Central Asia into a captive market for Russian industrial products by setting high tariffs for foreign goods. Russians settled in Central Asia not only in towns but also on farms, especially to grow grain in the Kazakh plain. Before 1917 the Bolsheviks promised a new era, and spoke of the cultural -- and even political -- autonomy of the old colonies.

But after coming to power, they resisted every effort to break up the empire. In 1924, the Soviet government began implementing a "nationalities policy." This policy granted them national "republics" within the U.S.S.R. In Central Asia, this meant dividing the region into five republics that, with minor adjustments, survive to the present: Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan. Imposing national republics on the Central Asians, the Soviet broke the unity of the region and thus reduced the likelihood of all Central Asians acting together in concert against the Russians.

Nevertheless, the relationship between the Russians and Central Asians was mutually beneficial. Russia brought benefits to all peoples. Moscow's revolutionary government had as much appeal to non-Russians as to Russians. Making the old colonies

into nominally independent republics allowed the Bolsheviks to argue that non-Russians had freely chosen to remain under Russian rule. The Central Asians peoples found themselves transformed from oppressed masses into "younger brothers" in the struggle for peace and equality. "Colony" means a region subjugated to an alien people where the ruling class is not only distinct but has a home elsewhere. Soviet authorities claimed that Central Asia was no longer a colony, but consisted of independent republics.

Let us look at three features of Central Asia under Soviet rule -- politics, economy, and culture.

Politics: The distance of Central Asia from Moscow had benefits. Living far from the center of power, their actions were less subject to the intense scrutiny of the government. All Soviet peoples, the Central Asians experienced the least terror during Stalin's rule and less interference since, the Muslims enjoy a better quality of life than the Russians.

Central Asians did not fit the status of a colonial people. First, Central Asians were full-fledged citizens of the Soviet Union. They enjoyed complete legal equality with the Russians; the discrimination they suffered was outside the law. Second, the Soviet army conscripted all citizens, without regard to regional or ethnic origin. Central Asians served just as Russians did. Once in the army, no distinction was paid to origin, and all nationalities freely mixed. Though the republics of Central Asia were independent and sovereign, they did not have their own foreign and defense ministries and the constitutional right to secede from the Soviet Union were impossible to invoke.

Moscow limited republic's power in internal affairs too. There could be no rivalry between Moscow and the republics because the latter have no forces against the center. The instruments of power were all in the Soviet Union's hands. The army and the secret police were controlled by Moscow, vital economic matters were directly supervised from there so on. Republics and local authorities had certain powers, but the central government could order the outcome of court cases, set censorship guidelines, discipline party members, or reverse any locally made policy. It could always reverse decisions made at the republic level.

Republics had some power as self-governing states, but mostly for propaganda purposes for the outside world. Central Asians did not participate in the central

government in proportion to their population. Technically they did participate, but could not have much say on that decided their fate, because Moscow dominated every decision-making body.

Russian power extended even within the Central Asian republics, where ethnic Russians held many key positions. Generally, the top positions and ceremonial posts were held by local nationalities, while Russians held key second-level jobs to keep a close watch on local developments. They were appointed directly by Moscow, and they maintained tight control over the local political apparatus. The presence of many Russian settlers in all the Central Asian republics made it possible to keep all political positions in local hands and still include many Russians.

Culture: The Tsarist government before 1917 had done nothing to encourage education, so the literacy rate in Central Asia was very small. Education was available only for rich, but even they had narrow religious knowledge. Education made great strides since 1917; education became compulsory and usual, everyone could read and had a chance to get higher education. All children attended school; numerous technical programs prepared them for skilled jobs; and there were several universities in the region. The literacy rate grew to 100 percent. This change came about as a result of the heavy Soviet emphasis on education, and the willingness of the government to spend on it. Such advances in education distinguished Central Asia from a typical colony, where the European power was typically unwilling to spend money on education. Indeed, many colonial powers (including the Tsarist one) preferred an uneducated colony, rightly expecting less trouble from it.

The Soviet treatment of religion argues again for Central Asia's relatively privileged status. Soviet authorities discouraged religion on principle, yet Islam had fared better than Christianity. If mosques were turned into post offices, Russian Orthodox churches were used as barns. Having Christian origins themselves, the Communist leaders persecuted Christianity with particular ferocity; they seemed to care less about Islam. In Tsarist times, the Russians viewed Islam as a dangerous power; they did not understand it, and they made few efforts to come to terms with it. The Communists added an atheistic ideology. The Russian settlers in Central Asia and the Soviet regime scorned the Islamic civilization of Central Asia.

State atheism has two special consequences in Central Asia. Coming from men of Christian origin, Muslims see atheistic doctrines as a covert Christian attack on Islam. They note that Russians have always despised Islam - earlier in the name of Christianity, now in the name of atheism. From the Muslim point of view, the two look suspiciously similar. Second, Islam being tied to every aspect of a Muslim's life, an attack on the religion also denigrates his whole way of life and his culture.

Soviet government played havoc with the local languages by changing their scripts and word meanings. (*Karl H. Menges, 1967*) The Soviet government ordered that the Central Asian languages drop the Arabic script, starting in 1922, as a way to isolate the Muslims of the Soviet Union from both their Islamic heritage and from writings in Turkey, Iran, and other parts of the West Asia. This gave the Soviet authorities much greater control over reading matter. Also, it put an obstacle in the way of Soviet Muslims communicating with foreign Turkic and Iranian speakers. That the intention was to isolate was proved by the Soviet reaction to Atatürk's reforms. When he required the Turks of Turkey to adopt the Latin alphabet in 1928, the Soviets ordered a second change in script, from Latin to Cyrillic. Cyrillic letters remain in use until this day. Uzbekistan uses two scripts letters- officially Latin, generally Cyrillic one. The change from Latin to Cyrillic letters involved another change too. Whereas the Latin alphabets had represented each sound of the many Turkic dialects with the same letter, the Cyrillic alphabets for the many dialects assigned different letters for the same sound.

Economy: Central Asia had a very small industry before 1917, and it has developed much since then. Improvements in productivity and standards of living had taken place, often greater than those of the Soviet Union as a whole. The government made substantial efforts to accelerate growth by investing heavily in Central Asia. Moscow apparently put more money into the region than it has extracted. (*A. Nove and J. A. Newth, 1967*) And, it shows that Central Asia was not a colony, because ruling power never (intentionally) will invest more in a colony than it derived from it. Further, much of this investment could have brought better returns through investment elsewhere in the Soviet Union; (*Ibid., p. 45*) and it improved standards of living in Central Asia.

The Russian connection thus brought Central Asia economic benefits, lifting the region to a prosperity that the local peoples on their own could not have attained. Soviet

Muslims in terms of per capital income, mortality rates, medical services, electric power enjoyed higher standards than their independent neighbors like Afghanistan, Iran, and Turkey. And this may be due to the more stable government in Central Asia; none of its neighbors has had the same government since 1920.

Central Asia compared favorably not only with the West Asian countries, but also with other regions of the Soviet Union. It experienced a smoother development under Soviet rule than most other regions. Aside from the catastrophic collectivization efforts in the 1930s, the Central Asians have almost escaped the economic excesses and reversals that have so severely afflicted the rest of the Soviet Union. In contrast to other regions, Central Asia had received enough money for agricultural investment; as a result, it was the only region in the country with a successful agriculture. (*M. M. Shorish, 1975*) If Central Asia's economic picture compared favorably with other regions of the Soviet Union, the usual colonial relationship is turned on its head. Can one yet maintain that Central Asia was economically a colony of Russia's? From one side -Yes, because the power relationship implies that Moscow held nearly total control over Central Asia's economy. From another side, Ruler will never spend money for good standard of life, education, health etc on the colony.

Moscow directly controlled the most sensitive industries, such as gold and military production. It determined foreign trade to and from Central Asia. The people and governments of the area did not dispose of the hard currency they earned. Instead, their profits were directly to Moscow, which usually allowed them only a small piece of those funds for their own use.

Central Asia provided Russia with cheap raw materials and then imported its industrial goods. All the cotton in the Soviet Union was grown in Central Asia, but in 1964 only 9 percent of it was processed locally, the rest was sent out of the region. (*Nove and Newth, 1967*) In return, the Russians cut Central Asia off from direct foreign trade, and exploited it as a captive market for their inferior industrial goods.

Though, typical colonial relations did not exist between Central Asia and Moscow, there were differences between the Muslims and Russians living in Central Asia itself. The Russians there tended to have better land and better jobs. The region presented a model case of ethnic stratification, wherein one group, the Russians,

commonly enjoyed economic advantages that few from other groups shared. (*R. A. Lewis, 1975*.) Whatever Central Asia has, it enjoyed at Moscow's pleasure. Moscow had good reasons for not letting loose Central Asia. As Michael Rywkin said then, "Soviet Russia seeks political domination, even at the price of economic discomfort for its own citizens. (*Rywkin, 1982*)

Before disintegration Central Asian resources was not available to outsiders. As mentioned above, all power to deal with the outside world resided in Moscow. The outside world has in the 21st century come to regard Russia and the Commonwealth of Independent States (CIS) as increasingly important sources of energy for other countries for reasons of energy security and energy diversification. Central Asia has also become important because of energy resources, which have not been fully developed and tapped, and because of rich raw materials, strategic location and transportation routes.

Central Asia is a region of vast mineral wealth. Proven petroleum reserves in the region are estimated as ranging between 16.9 billion barrels and 33.4 billion barrels, exceeding those in the United States or the North Sea; *possible* reserves could yield as much as 233 billion barrels. Proven natural gas reserves are estimated at between 177 and 182 trillion cubic feet, making Turkmenistan (with 101 trillion cubic feet) and Kazakhstan (65-70 trillion cubic feet) two of the 20 most well-endowed gas depositories in the world. There are more than 40 oil companies from 22 countries involved in several consortia, with an estimated US\$50 billion already invested in various regional projects; oil production reached 1.3 million barrels per day (b/d) in 2001 and is expected to exceed ca. 3.7 million b/d by 2010. (*Michael Fredholm, 2005*)

In Turkmenistan, with the world's 11th largest natural gas reserves, gas comprises 57 percent of its exports (as of 2002) with oil accounting for an additional 25 percent; the same year, oil constituted 52.8 percent of Kazakhstan's exports. Kazakhstan has a disproportionate share of the known oil, 8-10 times as much as the next largest Central Asian producer, and Turkmenistan and Uzbekistan predominate among gas producers. Both Kyrgyzstan and Tajikistan are both relatively poor in energy resources—except for hydroelectric power, which is not easily commoditized. (*Lowell Dittmer, 2007*)

Energy :

Energy resources nowadays have become politized. It takes important place in various geopolitical researches and involves increasing number of analysts at different levels. An energy relation with Russia has become a subject of growing fears in the Europe. Disputes about export Russia hydrocarbons has long story more them twenty five years ago construction of a gas pipelines from Siberia to the Western Europe generated a lot of discussions. This project had divided the West: the US embargo on delivery of technologies has caused the protest from some European countries. They were resolute on going participating in the project, which was necessary for meeting the quickly growing demand for natural gas. Around Urengoy pipe lines were united the leading states of the European community equally interested in cooperation with Soviet Union

During the Cold War energy cooperation was like a bridge between the Western Europe and East Block. In the opinion of the former chancellor of Germany Helmut Schmidt, the states dependent from each other economically, will not be at enmity. (*N. Kampane, 2007*). Heads of the Europe's gas industry supported the good relations with the Soviet Union based on mutual trust and respect, concluding long-term contracts. The West-European companies in the 1970s and 1980s years did not think of geopolitics, and in common did business with the Soviets. Cooperation between companies and governments of the countries is important and necessary, because gas trade demands construction of the main transcontinental gas pipelines. Gas before it is delivered to the company, crosses territories of the several countries.

Today the questions about cooperation in sphere of energy again cause political passions, but this time already inside of European Union. For example, the project of a gas pipeline "Northern stream" illustrates conflicts of interests inside of the European Union: on the one hand, the project is supported by West Europeans, and on the other – is attacked by the Baltic states and Poland. At the same time, the energy became a subject of disagreements between the Kremlin and Brussels politicians. According to the West, Russia uses oil and gas as weapon to achieve its own interest. The similar point of view is today widespread among politicians.

By the end of 1950s the USSR entered the European energy markets, in a big way by renewing oil exports. From the end of XIX century Russian empire delivered to the Europe oil from deposits in Baku. The USSR renewed these supplies in the beginning 1930. After the Second World War general consumers of the Soviet oil were socialist countries. In 1955 - 1960 Soviet petroleum industry having doubled oil production, the USSR became largest producer in the world, after the United States which allowed it to begin export of oil again.

In conditions of Cold war renewal of the Soviet deliveries had caused concern in the West. Besides it has seriously disturbed the large oil companies that dominated in the world energy market. It was difficult for them to reconcile with a new competitor, which forced them to lower prices. In 1957 Italian state group ENI signed with USSR contract for oil delivery, after which it became an important importer and till now remains one of the main trading partners of Russia.

In 1950s and 1960s Soviet Union could begin again export to Western Europe. At Cold War time this strategy was perceived as a real political attack. The leading oil companies of the West had to reduce of the price in turn. This reduction of prices promoted creation of OPEC in 1960.

In 1962, soon after the Cuban crisis, the United States imposed economic sanctions against the Soviet Union: for example, embargo on delivery of pipes with big diameter necessary for construction of pipelines. The government of the Western Germany pressed large steelmaking companies of the country to cancel contracts with the USSR for delivery 130 thousand of tons of steel pipes. However, some European countries, for example the Great Britain and Italy, refused to support these sanctions. The USSR was later able to manufacture pipes with big diameter, and constructed most section of the first trans-European oil pipeline "Friendship" with a length of 5500 km. Sanctions delayed construction of the oil pipeline only for a year. In 1969 embargo was lifted.

Though "wide diplomatic approach of the Kremlin" encountered resistance from the countries of the western block, import of "red oil" to the Western Europe during 1960s steadily increased. Embargo only slowed cooperation in sphere of energy but

could not stop it as business circles, especially in Germany, were extremely interested in development of trade in this sector.

In the USSR extraction of natural gas has considerably grew: opening in the end of 1960s new huge deposits in Siberia (Urengoy, 1968) and expansion of capacities in Ukraine and in Central Asia led to doubling of production of gas in ten years, which reached 198 billion cubic meters in 1970. During this period gas resources of the USSR were estimated approximately to be 40 % of world reserves that established Soviet leadership in the world energy market. However, transportation of gas in comparison with oil had some distinguishing features: it was necessary to build lengthy main gas pipelines. Besides new deposits were in remote areas and of little use for residing regions, in high northern breadths.

The country had to commit enormous resources at the cost of other industries and well-being. There were no pipes, compressors and other equipment for creation of a necessary infrastructure. Construction of a gas-transport network needed so many pipes, that any country separately could not make them. Thus, cooperation with industrially developed western countries was needed not just due to technological backlog, but also huge amount of works which needed to be executed by target dates.

Within two decades Soviet Union became the main manufacturer and the exporter of natural gas. It became possible owing to powerful scientific and technical and industrial potential, and also highly professional management. Now, when new deposits are in even far and difficult polar territories, their effective development is difficult without the participation of the Western companies with their superior technologies and advanced technical equipment.

In 1968, the Soviet gas for the first time reached Austria, a neutral country. The first important trading negotiations with the countries of the European block took place in 1969: ENI signed the first contract on delivery of gas of 2.5 billion cubic meters per year. Deliveries began in 1974 after building a gas pipeline which passed through territory of Austria. (*N. Kampaner, 2007*).

In February 1970 Germany and the USSR signed a contract for delivery natural gas to Western Germany – approximately 3 billion cubic meters per year. Germany

partly paid for the received fuel deliveries by supplying 1.2 million tons of tubes with big diameter which was necessary for construction of a gas pipeline.

For providing gas transportation, Soviet Union negotiated with ENI (Italy), Ruhrgas (Germany) and NAM (Netherlands) about construction of the pipelines through Czechoslovakia and Germany.

During 1970s hydrocarbon fuel became the main component of trading between Europe and the USSR. West generally supplied the equipment and the technologies intended for development of energy. The equipment for the oil-and-gas industry was delivered mainly from Germany, Italy, France and Japan and made 60 - 70 % of total amount of import deliveries. About third of import of technologies and the equipment in the USSR was from Germany which remains the main trading partner of Russia at present. (*N. Kampaner, 2007*)

Development energy trade was accompanied by construction of large trans-European energy supply systems. To Germany the Russian gas was taken through German-Czechoslovak border by energy supply system MEGAL; to Austria - through Austria-Czechoslovak border by energy supply system WAG. These two networks provided transportation of all volume of the fuel bought in Russia GDF, WMV and Ruhrgas. The constructed network of pipelines has strongly connected the Western Europe with Russia. And long-term contracts on delivery of gas have reliably fixed these "steel" communications. Thereby the Western Europe decreased its external energy dependency. Import of raw material from USSR continued to increase.

In the middle of 1970s Austria, Germany and France took part in a gas pipelines which would connect these countries with the Iranian deposit "Kangan". According to the Contract concluded between the countries of the Western Europe, the USSR and Iran in 1975, A subject of this tripartite contract was construction of gas pipeline IGAT-II (Iranian Gas Trunkline) with length 1440 km on which gas from the south of Iran should terminate at Astara on the Soviet border. The gas main was supposed to be conducted through Teheran and up to Uzhgorod, whence gas through Vaydahus would move on the European markets. Deliveries were to begin in 1980 – 1981s. However, this project comes to the end with the Islamic revolution in Iran (1979).

Owing to development of huge deposits of gas in Western Siberia (Yamburg, Urengoy) Soviet Union was represented a unique supplier, capable to replace Iran. Besides because of the price conflict to Algeria France has refused the traditional supplier of gas and has been compelled to be guided also by blue fuel from the USSR.

Thus emerged a new project of the gas pipeline connecting the Siberian deposits with the European markets and allowed it to increase prospecting natural gas (about 24 billion cubic metre in 1980 up to 60 billion in 1990). By this time two gas pipelines connecting Yamburg ("*Polar lights*") and Orenburg ("*Souz*") with Uzhgorod on the Czechoslovak-Soviet border with branches to borders of Germany and Austria had already been constructed.

The new project differed from the previous: it was providing not only direct supply to Western markets, but also in doubled gas supply by 1990. The Soviet party was expected to fill shortfall in shipments of oil, whose extraction in the end 1970s has appeared interfaced with the certain difficulties due to growing gas export demands.

In 1979, the USSR began negotiations with Germany, France, Italy, Belgium, Austria and the Netherlands about participation in construction of a 5400 km pipeline to Germany, Ruhrgas and Deutsche Bank allocated 4 billion DM for purchase of compressor stations and the other equipment. Under the initial plan the gas pipeline should pass through territory of East Germany, but Germany rejected it, fearing, that GDR could cut deliveries of gas in case of political crisis.

Transit through Ukraine and Czechoslovakia was considered as more reliable. Disintegration of east block in the beginning 1990 became a big problem. Today, despite lack of rivalry between the East and the West, problems of transit of gas have become even more complicated, and new joint projects assume construction of gas pipelines through bottom of the seas, by passing the transit states (Nord stream and, Blue stream).

Supporters of a gas pipeline to Germany were sure, that this project will allow increasing and stabilization to gas supply and strengthen energy security of the Europe. Washington was against, being afraid, that currency receipts will promote strengthening of military-industrial complex of the USSR.

President of the USA, Ronald Reagan, declared on 29 December, 1981 the trading sanctions against the USSR, including the termination of materials deliveries for construction of the Siberian gas pipeline. As the official reason cited was situation in Poland where strikes and social protest were focused by martial law and mass arrests.

It caused disagreements between allies of NATO. France and Germany were against trading restrictions. During the Versailles summit (June 1982) Ronald Reagan again has tried to impose his policies on the European countries and pressed to stop financing the project through European credits. But Francois Mitterand and Helmut Schmidt left the session, undermining that financial and energy contracts with the USSR will not be changed. “*Reagan's crusade*”, it was called by journalists, in Western Europe was seen as intervention in Europe internal affairs.

Then the American president has decided to enter embargo on delivery of technologies. Thus, the European companies cooperated with the USSR, henceforth had no right to use the American technologies under threat of application of sanctions. This decision has caused indignation in the Europe at of some chapters of the states and the governments. But as a whole this restriction had no consequences: Thatcher and Mitterand advised the companies to participate in the project, to not pay attention to the American interdictions.

In October, 1982, the next compromise was reached: the USA would cancel sanctions in exchange for stricter control of allies over deliveries of technologies to the USSR, and also on refusal of favorable credits and of signing new contracts on delivery of natural gas. Earlier signed agreements would be recognized and remain in power.

A month later, in November, the American president signed confidential instruction NSDD-66 (National Security Decision Directive), directed to undermine the Soviet economy. The instruction provided expansion of the list of restrictions. It concerned first of all the equipment for the oil-and-gas industry. Not been able to stop construction of a gas pipelines, the American administration planned to slow down realization of the project to delay receipts in the USSR in hard currency and to limit the volume of purchases of gas stipulated by contracts. (*Peter Schweitzer, 1994*)

The reasons of fall in the prices of oil in 1986 till now remain a riddle. As one of the reasons usually specify aspiration of Saudi Arabia to increase its share in the world market by raising extraction. Peter Schweitzer, the employee of Honover Institute (USA) in his book had offered an other version: failing of the prices for oil was organized by the administration (Peter Schweitzer, 1994) On the one hand, the low prices for oil would promote slowly down of the Soviet economy, and on the other - would stimulate American growth. Thus, in conditions of "Cold War" United States used energy resources as an economic weapon.

Historical analysis suggests, that between 1984 - 1985 the high-ranking officials of the American administration, director of CIA William Cassay and Minister of Defence Casper Vainberger, met members of royal family of Saudi Arabia - king Fahd and prince Bandar (the ambassador in the USA since 1983 till 2005), and also with sheikh Ahmed Zaks Jamani, influential minister of a petroleum industry (1962 - 1986). In Schweitzer's opinion, Americans managed to convince Arabs of the necessity "to open the oil crane". Their basic argument consisted that the falling of the prices caused by it will deprive the USSR of inflow of hard currency and , as consequence, will weaken the Soviet power and communistic influence in the Arabian countries - Syria, Iraq, Libya. Besides, the Soviet military actions in Afghanistan, was represented as an aggression against the Muslim world.

By August 1985 oil production in Saudi Arabia jumped up from two to nine million barrels per day. The prices crashed. The United States declared reduction of import of oil. For the period from November, 1985 till April 1986 price for a barrel has fallen by 30 percent to 12 US dollars. Export of costly Siberian oil became unprofitable.

Schweitzer refers to the report of CIA published in May, 1986: "Falling of the prices considerably will reduce opportunities of Advice to import the western equipment, agricultural production and industrial raw material... (It) will occur during, when Gorbachev most likely counts on growth of financial receipts from the West to realize the program of economic recovery"

Actions of Americans are mentioned as one of the main sources of decline in the foreign trade income of Soviet Union. During this period from 60 up to 80 % of all

currency receipts was from export of oil and gas. Through hard currency oil-and-gas equipment were bought, which allowed to increase oil production. The price fall from the end 1970 disturbed the Soviet economy.

Oil crisis seriously affected the Soviet economy, which has played an important role in disorder socialist camp and in the Soviet Union. The collapse of the prices for oil has hard reduced the receipt of currency. The USSR was compelled to cut down deliveries of oil to the socialist countries. Moreover Moscow started export of oil in convertible hard currency.

At the same time in long-term prospect of cheap oil has rendered negative influence the Western industrially developed countries. The investments on research for alternative energy sources have been cut down and strong dependence on oil has not been overcome. Today, when the prices of oil grow rapidly, the consumer-countries face the same problems, as 30 years ago.

Relations between the European community/European Union and the Soviet Union/Russia for a long time existed on close mutually advantageous trade ties. Gas contracts promoted development of cooperation, creating strong bilateral communications. Development of the Siberian deposits has allowed the countries of the Western Europe, which was after two oil crises and strong dependence on the countries of the West Asia /Middle East, seek diversification of sources of energy supply. On the other hand, the USSR and later Russia became dependent on a foreign market of hydrocarbons. Thus, for example, in 2006 more than 80 % of volume of the Russian export of oil and about 70 % of the Russian export of gas were to the European market.

Soviet Union never used hydrocarbons for political purposes in relations with the West. Export to the countries of the Western Europe provided receipt of hard currency for purchase of modern oil-and-gas equipment and technologies. During the economic depression, following disintegration of the USSR, Russia continued to increase volumes of export of gas and oil to the EU countries while sale in former Soviet republics and internal consumption considerably decreased. As a result, hydrocarbon became the dominant product in foreign trade of Russia.

High level of an oil recovery and gas allows Russia to show ambitions of a Superpower. However its energy power is very vulnerable. Dependence on the world prices became cardinal. Long industrial recession and absence of scale capital investments have rejected Russia far back. The most part of undeveloped stocks is located in zones, which is very difficult to access (Eastern Siberia, Arctic regions). Ineffective use of significant financial resources, corruption of authority, excessive power consumption of the industry, irrational subsoil use put under doubt ability of Russia in long-term prospect to remain the reliable partner

It is important for Russia to decrease energy consumption by rationalizing the internal prices, using modern energy saving technologies in all spheres of economy, including municipal services, development of safe nuclear power, technologies of pure coal and increase efficiencies of thermal energy stations. And it should become the true purpose of cooperation between the European Union and Russia as without stable Russia cannot be guaranteed energy security of Europe

The new states of the Caspian Region and Central Asia risk became important factor in Europe and Russian energy relations. In the past, the Caspian Region and Central Asia suffered economically from the Russian and later the Soviet occupation through its distorted development. The Czarist regime built railways and started developing the local cotton industry. In Azerbaijan it developed a huge oil industry, measured by the standards of the times. Indeed, because of oil, Azerbaijan embarked on a different path of economic development from the Sunni Central Asia across the Caspian Sea. In both cases the Czarist regime imposed unequal exchange relations and economic monoculture. In Azerbaijan the oil industry soon dominated economic life. In the rest of Central Asia, cotton became the dominant crop and cash earner. After serfdom was abolished in Russia, millions of Russians moved to Central Asia, but much less to the Caspian Region.

Russia's political interest seems first of all to be to deny other external powers control of the region. This does not mean barring access to foreign oil investors. Indeed, by first giving the new countries some leeway to negotiate directly with Western oil interests and then reasserting some dominance of the region, Russia seems to divulge a devious strategy. It seems to be to attract Western capital and technology to modernize the

Azeri and Central Asian oil industry, but to some extent for her own benefit. To prove the point, Russia has put fairly blunt pressure on Kazakhstan to choose an oil transit route through Russia rather than Turkey and to get a share in the Azerbaijan oil consortium, apparently without payment.

Furthermore, Russia has an interest in controlling Caspian and Central Asian oil and gas exports to improve her own bargaining position with Western oil investors. The oil and gas export pipelines are the instruments giving Russia a political leverage and economic recovery.

In this research attempt will be made to highlight the importance of Central Asia and Russia relations in energy field within the context of growing global energy demand.

In chapter I historical background of Russia's relations with Central Asia since Soviet time will be analyzed. And overview of the energy history of Soviets, and how it entered to European market shall also be discussed in this chapter.

In Chapter II I the energy strategy of Russia and oil and gas situation in the Central Asia region and Russia will be considered. Relations between Central Asia Region and Russia, the problems and perspectives, the transportation problems and solutions shall also be analyzed

Chapter III would focus on the significance of energy factor in Russia and Central Asia relations since the disintegration of the USSR, and would also look at the Russia's energy policy.

Chapter IV would analyze the impact of outside powers on Russia and Central Asia relations.

Chapter V would summarize the findings of the study in the form of concluding observations

Chapter 2.

Central Asia and Russia relations: overview

The sudden emergence of new states after collapse of USSR caught both the local populations and the world at large unprepared. During 20th century the land-locked Central Asian states remained isolated subjects of the Soviet Union. Collapse of the Soviet Union has changed this situation dramatically, putting the newly independent states of Central Asia in new geopolitical position. This is both because it was discovered that some of them sit on vast natural resources, notably oil and gas.

Although the Central Asian states have a common history, each state has its own model for its future development. The populations of this region are confronted with several problems, which any time can threat to regional security. (Meena Singh Roy, 2001).

These problems and treats are:

- Islamic extremism
- Drug trafficking and smuggling of arms
- Threat posed by organized crime and corruption
- Demographic pressures. Overpopulation, along with the restricted land resources, unemployment , poverty, and traditional large families, presents a range of problems, specially in Uzbekistan
- Conflicts among elites (clan struggles).
- Ethnic and religious conflicts
- territorial disputes
- Problems of water resources
- Environmental security issues
- Deterioration in the educational sphere
- The structural crisis of the state and weak political system
- Transit and proliferation of weapons of mass destruction (WMD)

During the post-Soviet period, Russian policy in Central Asia¹ has few changes: from total ignorance in the early 1990s, to the present-day level of cooperation with them,

¹ "Central Asia" is the area in central Eurasia consisting from five countries (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan) which emerged after collapse of the Soviet Union in 1991 This five countries have similar socio-political systems and economies which retain close links with each other and have a great influence on each other in internal and external affairs, in economics, politics, and security.

generally in institutions and in the oil and gas sectors. Russia's policy towards Central Asia after disintegration of Soviet Union can be divided into three phases:

- early 1990s, a time when Russia ignored Central Asia because of own internal problems and pursuing integrate itself with the West;
- the late 1990s, when there was a radical re-think about its foreign policy going on in Russia, including its policy towards Central Asia;
- from 2000, when Vladimir Putin and his team came to power in the Kremlin. In this period Moscow has made a more concerted effort to bring the region within its sphere of influence as a way of enhancing Russia's international status.

Russian policy in the early years. When the Soviet Union collapsed, in December 1991, Russia had no clear policy towards the Central Asian region or to the post-Soviet countries in general. The new Russian rulers were more aware about relations with West, particularly with US. Russia's foreign policy in early 1990s was intended to make the country an integral part of the European-Atlantic community. And Moscow regarded Central Asia like some type of appendix, without which the process of reforming the Russian economy and aligning Russia with Western economic and military-political systems would proceed more easily and quickly.

This Russian ignorance was clearly seen in the regional security area, Russia left the countries of Central Asia on the whole to their own power to meet any threats which can arise from Afghanistan or other outsiders.

In 1992 Russia took responsibility on treaty obligations to the Central Asian countries, mainly via the "Collective Security" treaty in Tashkent, the capital of Uzbekistan.²

In the early 1990s, Russia reduced its levels of military cooperation with the countries of Central Asia. The plans to create a collective security system in Central Asia (and in the CIS as a whole) came to very little in practice. The same situation applied in Russia's bilateral security arrangements with the countries of the region.

² The Collective Security Treaty was signed by Russia, Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan and Armenia. Belarus, Azerbaijan and Georgia joined the treaty in 1993. The treaty was to remain in force until 1999

The Yeltsin administration tried to distance itself from events in Central Asia. Moscow was unable prevent internal conflicts in Tajikistan, flow of drugs from Afghanistan, and increasing military presence in the region of other countries. When, for instance, at the end of 1994, NATO began its "Partnership for Peace" programme, Russia made not taking serious attention to it and attempts to coordinate a united approach to the programme.

Yeltsin's Russia also destroyed the unified economic zone as well: the republics find itself out of the rouble zone.³ The Central Asian countries were preferred to preserve a unified trade and currency system with Russia. But in 1993 Russia expelled the states of the region from the rouble zone, leaving them with no currency.⁴ . This in turn led to the destruction of the close economic links between Russia and the Central Asian countries. The volume of trade between Russia and Central Asia countries fell down.

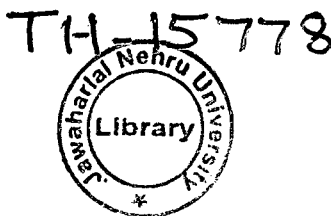
Moscow did not show any interest in developing cooperation between institutions with Central Asian countries (and the other post-Soviet countries). Russia's main (and only) foreign policy alignment was now Euro-Atlantic, the CIS was virtually only a paper organization. Initiatives to develop new type of cooperation between the post-Soviet states were not welcomed by the Kremlin. In 1994 Moscow ignored the attempt by the president of Kazakhstan, Nursultan Nazarbaev, to form a Eurasian Union, although this initiative possible could in that time give re-integration processes between Russia and Central Asia.

This attitude of Russia towards Central Asia was one of the main reasons why Central Asian administrations began to lose faith in Russia and its policies and attempted to re-align their international connections. After the disintegration of the Soviet Union the small scale of the economies of the Central Asian countries and their weakness in the manufacturing sector were vividly displayed. In Soviet times the economic activity of the Central Asia region⁵ was aimed mainly at satisfying the demand from other Soviet republics for raw materials. Consumer and industrial goods in the region were supplied

³ After the disintegration of the Soviet Union, in 1992 and 1993, the Russian rouble had remained the standard currency in the countries of Central Asia.

⁴ In Soviet times, currency had been issued only in Moscow. Moscow also made all the monetary policy decisions.

⁵ The region at that time was "Central Asia and Kazakhstan "



from other countries of the Soviet Union. The import costs were much higher than export costs (the cost of manufactured goods being higher than the cost of raw materials), the region was receiving regular subsidies from the centre, which were vital for their social development. The Central Asia was having strong structural and technological interdependency with areas of Russia and with other post-Soviet states.

The collapse of the Soviet Union and the destruction of its system of economic control, and the cutting-off of the region from the Russian trade and currency system caused the collapse of the previously existed close links between the states. And because Central Asian states are landlocked countries the costs of transportation of goods from these landlocked countries increased than the costs of transporting goods from countries with coastlines. (*Eva Molnar, 2003*)

In these difficult conditions the economic situation deteriorated sharply. This led to a serious fall in the standard of living, particularly immediately after independence. As result this is raised social tension and mass emigration of well-qualified specialists. At the beginning of the 1990s the states of the region were close to destabilization and in the case of Tajikistan there was actual civil war. If there had not been a breakdown of the formerly unified economic, defense and institutional zone, it is possible that the civil war in Tajikistan and many other problems could have been avoided.

The Central Asian countries reacted indignantly to the Kremlin's "new foreign policy", seeing it as a kind of betrayal. This was a natural reaction to the actions of a fraternal country with which they had grown up within the family of a common state for more than 100 years: first the Russian Empire and then the Soviet Union. The Central Asian countries were forced to form new international links (economic, political, military, etc.) to replace the old ones, which in Soviet times were primarily with Russia.

Central Asia countries were keen to preserve a common trade and monetary system with Russia, with a common currency and close economic links. Uzbekistan was trying negotiate with Russia about retaining the use of the Russian rouble on its territory. However, all the countries of the region were obliged to introduce their own currencies and create new national economic systems practically from zero. In the first few years of independence, the most pressing issues for the Central Asian states were the choice of economic policy and the choice of external economic partners.

Kazakhstan and Kyrgyzstan tried to liberalize together their economies as much as possible, attracting foreign investment and speeding up the privatization of their industrial enterprises, usually into foreign hands. Kazakhstan was more active in this respect, selling off strategic assets such as mining and metallurgical complexes and hydrocarbon deposits. The large chromium deposits in Kazakhstan, the only ones in the whole of the CIS, were sold to Japan,⁶ and a number of Western companies acquired a significant proportion of the hydrocarbon deposits on the Kazakhstan part of the Caspian Sea shelf.⁷ Kyrgyzstan sold its largest gold mine, "*Kumtor*", to the Canadian Cameco company.

Uzbekistan and Turkmenistan, also tried to attract foreign investment, but refrained from quick liberalization of their economies and selling off their strategic assets. These two countries retained government control over their economies and implemented more socially-oriented internal policies, giving more protection to socially vulnerable sections of the population. In particular, they continued to subsidize a number of essential goods. Turkmenistan actually provided its people with free gas, water and electricity.

The countries of the region also tried to improve their institutional cooperation, without Russian participation. In 1993 Uzbekistan and Kazakhstan signed an agreement on the "intensification of economic integration in the period 1994-2000", and in 1994 Kazakhstan, Uzbekistan and Kyrgyzstan signed an agreement on "the formation of a unified economic area".⁸ Tajikistan joined this agreement in 1998.

As Russia was weakened internally and showed little interest in developing cooperation with the countries of Central Asia in defense and security matters, the states of the region (apart from Tajikistan) was trying find other partners. After collapse of USSR the Central Asian countries were very weak militarily and economically, and needed external guarantors of regional security and foreign assistance in building up their national armed forces.

⁶ Chromium is a metal of vital economic and strategic importance. It is an indispensable component of most types of steel used in modern industry. Without the use of ferro-chrome alloys, manufacturing in mechanical engineering works would grind to a halt

⁷ The largest deposit, "*Kashagan*", was sold to the Italian ENI, British Gas, Total (France), Royal Dutch Shell, ConocoPhillips (USA), Exxon Mobil (USA) and Inpex (Japan).

⁸ In 1998, at the request of Uzbekistan, this agreement was realised within the framework of the Central Asian Economic Community, which became the "Central Asian Cooperation Organization" in 2002

And the only likely partners were member countries of NATO at the end of 1994, the Central Asian countries signed agreements with Brussels to adhere to the NATO "Partnership for Peace" programme.⁹ In 1995, Kazakhstan, Uzbekistan and Kyrgyzstan formed a joint Council of Defense Ministers, whose main function was to coordinate cooperation with NATO. The Central Asian battalion "Centrazbat" was formed by personnel from the three countries in the same year. This battalion carried out training within the framework of the "Partnership for Peace".

So, in the early and mid-1990s the consequences of Russia's new foreign policy were catastrophic. It created a geopolitical vacuum, not only in Central Asia, but in the whole of the post-Soviet area.

Russia never became part of the Euro-Atlantic community. The internal reforms in Russia were not successful. Moscow did not have any serious influence on Western countries. It lost its international authority and its regional status. The result was, according to Russian experts, that "in the mid-1990s Russia was much more isolated and vulnerable than the Soviet Union had been". (*S. Rogov, 1995*)

By the mid-1990s Russia actually "lost" Central Asia, not only from the political point of view but also in defense and economic matters. Russia now had significantly less access to the vital raw material resources of the region,¹⁰ which in Soviet times had been one of the main pillars of the industrial might of the Russia. And other countries, especially Western countries, started to look to Central Asia with big attention. Central Asian states also started to distance themselves from developing relations with Yeltsin's administration.

In the mid-1990s the Russian Government recognized the total failure of the Russian foreign policy strategy and understood that big changes needed to be done. Russia acknowledged that it was losing all positions as a Great Power in the international system and facing more internal chaos.

⁹ Turkmenistan participated in the "Partnership for Peace" programme, but in accordance with its policy of neutrality it only cooperated with NATO in humanitarian programmes.

¹⁰ Significant stocks of non-ferrous metal ores (more than 2/3 of the stocks of the former Soviet Union) were concentrated in Central Asia, as well as hydrocarbons and practically the entire stock of textile raw materials (cotton, wool, silk) and the associated light industries of the former Soviet Union.

Changes in Russian Policy.

From the middle of the 1990s Russia was trying to develop a fundamentally new foreign policy in general and a new policy in respect to the post-Soviet space in particular. The importance of the region in Russia's system of national priorities increased when the concept of "multipolarity" became the main plank of Russian foreign policy in 1996. The main aim of Russia's new foreign policy was publicly stated as being to become an independent centre of power, and the task of integrating with the Euro-Atlantic community was relegated to a secondary level.

Primakov¹¹ set the tone and the direction of Russia's re-thinking of its role in a changing system of international relationships and at the same time of the importance of Central Asia and the whole of the post-Soviet space. Before his arrival at the top political positions, Primakov had had unique experience of government work as the head of the Foreign Intelligence Service. He was very skeptical about the prospects of Russia integrating with the West. He believed that some Western countries were trying to exploit Russia's weakened influence in the world in general and in the post-Soviet area in particular. In one of his books he commented: "the leaders of a number of Western countries are actively working to prevent Russia from having a special role in stabilizing the situation in the former Soviet republics and to hinder their rapprochement with Russia." (*Y. Primakov, 1999*)

Accepting of the "*Primakov doctrine*" required Russia to increase its "regional influence". (*L. Aron, 1999*) Russia began to see Central Asia in this light as it tried to strengthen its position as the regional Eurasian Great power. Russia planned to achieve this aim mainly by improving cooperation in the defense sector and in questions of security, and also by exploiting its monopoly in the transport sphere, particularly for the transit of Central Asian energy products to external markets. Russia in its weakened and reduced circumstances did not really have other options. In view of the difficult economic and political situation in Russia at the time, this approach to cooperation was far more acceptable, affordable and achievable for Russia than developing full economic links would have been.

¹¹ Primakov was the Foreign Minister (1996-1998) and then Prime Minister (1998-1999)

During the later 1990s, Russia began to attach increasing importance to the stability and security of Central Asia. This was mainly due to the increasingly clear understanding in Russia that there was a threat to its own security from radical Islam. At the end of the 1990s Islamic radicals were virtually in full control of Afghanistan and of the Chechen Republic. In view of the increase of terrorist activity in Russia itself and the escalation of the conflict in the north Caucasus, Moscow became aware of the link between the destructive forces working inside Russia and those in Afghanistan and a number of countries in Central Asia.

Moscow's big success in the late 1990s was its resolution of the civil conflict in Tajikistan by diplomatic means and in cooperation with other interested countries. But in the late 1990s Russia still continue ignore the development of economic cooperation with the countries of Central Asia, except cooperation in the oil and gas sectors. This cooperation was with Kazakhstan, on the transportation of oil from Kazakhstan to the foreign market, and with Turkmenistan on conveying Turkmen gas to Russia or via Russia to other countries.

Russia often used this "cooperation" for its own political purposes, finding it to be a useful way to exert pressure on the countries concerned, as Russia had an absolute monopoly on the transit of Kazakh oil and Turkmen gas. On the one hand, Moscow demonstrated that it was keen to reserve the right to convey Central Asian hydrocarbon fuels across its own territory and oppose the construction of pipelines bypassing it. In this way it would strengthen its position in the region.¹² On the other hand, Russia could often not resist the temptation to try to retain its monopoly position in the transiting of hydrocarbon fuels from Central Asia. This was obvious when Gazprom blocked the transit of natural gas from Turkmenistan, or when Ashgabat itself stopped exporting its gas. And there were occasions when Russia imposed limits on the quantity of gas it allowed to pass through its territory for export from Kazakhstan.

¹² In 1996 the then head of Gazprom, Rem Vyakhirev, said: "Gazprom will not allow gas to be exported from Turkmenistan by routes other than through Russia" and that "will make the transit of Turkmen gas (through Russia) beneficial for both countries". In 1998 Russia signed an agreement with Kazakhstan on "construction work for the Caspian pipeline consortium", under which Russia undertook to invest in the construction of pipelines from West Kazakhstan to Novorossiisk, to increase the capacity of the existing "Baku-Novorossiisk" and "Makhachkala-Novorossiisk" pipelines and to construct new terminals at the port of Novorossiisk.

The Yeltsin administration was not intending to develop institutional cooperation with the countries of the region. By the end of the 1990s the CIS had become ineffective, and any relations Russia had with the Central Asian countries were on a purely bilateral basis. Russia's declarations about its plans for Central Asia met with a cool reception in the Central Asian countries. Because Central Asian countries already lost faith in Russia, especially in Yeltsin's administration which still was thinking about the region as "useless". Moreover, the Central Asian states were becoming increasingly aware of Russia's economic and even military weakness and already were hoping to have beneficial cooperation with West and the US.

Central Asian states were more concerned about their own many internal problems, including recession in industries after the loss of their traditional links, difficulties in the social sphere, raising activities of religious extremist organizations.¹³ Because of these factors the Central Asian countries were skeptical about the prospects for cooperation with Russia. For this reason, and because of Russia's inconsistent and contradictory behavior, Russia's Central Asian policy in the late 1990s was completely unproductive. The countries of the region began to rely increasingly on their own resources and on the hope of working with various international organizations and foreign donors.

As Russia did not want and was not able to develop full economic relations with the countries of Central Asia, the states in the region began to try and achieve economic relations with other countries. Turkmenistan and Kazakhstan were pushed to take decisive action to diversify the export routes for their energy resources. In the late 1990s Turkmenistan and Kazakhstan turned to a strategy of diversifying their international contacts in the oil and gas sectors as much as possible.

The authorities in Turkmenistan acted particularly decisively. In 1997 they commissioned the "*Korpezhe - Kurt-Kuli*" gas pipeline,¹⁴ for pumping natural gas to Iran. Also Turkmenistan started lobbying for the construction of gas pipelines through Afghanistan to Pakistan and India, and under the Caspian Sea to the Caucasus and

¹³ Such as "Hizb-ut-Tahrir" and the so-called "Islamic Movement of Uzbekistan".

¹⁴ This pipeline is 200 km long and has a pumping capacity of 8.5 billion cubic metres per year. It was built by the Iranian national oil construction company and commissioned in 1997. In 2007 it was working at virtually full capacity: in that year about 8 billion cubic metres of gas were pumped through it.

Turkey. Kazakhstan in 1998 started work on the technical and economic plans for an oil pipeline with China. Work also started on the possibility of supplying hydrocarbon fuels to the West. So, by the mid-1990s the Central Asian countries increasingly began to seek institutional links at the international level.

By 1996 all the countries of the region, except of Turkmenistan, had joined the Organization for Security and Cooperation in Europe (OSCE). In 1998 Kyrgyzstan joined the World Trade Organization (WTO). Then in 1999 Uzbekistan joined the "GUAM" organization (an alliance between Georgia, Ukraine, Azerbaijan and Moldova), which became known as "GUUAM" when Uzbekistan joined it.¹⁵ This organization, which has US political support, emerged as a sort of competitor to the CIS, or a "counter-CIS". It is clear why many Western analysts believed that the members of the GUUAM were "trying to find a way of enhancing their political, economic and military prospects, to enable them to neutralize Russia's influence in the CIS to some extent". (*Splidsboel-Hansen F. 2000*)

There were mixed reactions in Central Asia to Russia's policy on military cooperation. Tajikistan cooperated with Russia to the extent of agreeing to grant the Russian 201st Motor Rifle Division the status of a military base. This arrangement was not however put on a legal footing in the late 1990s.

At the same time the Yeltsin administration did substantial harm to its relations with Uzbekistan, where there was a strong reaction to Russia's virtual sabotage of the rapid intervention arrangements in the summer of 1998 (when the Taliban were close to the border between Afghanistan and Uzbekistan). In 1999 Uzbekistan, along with Azerbaijan and Georgia, refused to extend the Collective Security Treaty. This move was clearly not only a reaction to Russia's action or inaction, but also a form of insurance against Russia's inability to guarantee urgent military assistance in critical situations.

Thus in the late 1990s Russia found itself unable to strengthen its position in Central Asia and fill up "geopolitical vacuum" which it had been actually responsible for creating. There were many reasons for Russia's foreign policy failure in Central Asia.

¹⁵ The formation of the GUAM organization was announced officially at the Council of Europe meeting in Strasbourg on 10 October 1997. When it was announced at the 25th anniversary meeting of NATO in Washington in April 1999 that Uzbekistan was joining the organization, it changed its name to GUUAM.

First of all, there was no clear Russia's national long-term development strategy, including a foreign policy strategy. Central Asia feels that in trying to strengthen its position in Central Asia, Russia's main goal was to recover its international status and the image of a "great power". Russia still did not understand the importance of the Central Asian region for its own long-term vital interests, particularly its economic interests.

Next reason is that in the late 1990s, Russia's ability to achieve its foreign policy objectives was limited by its own internal social problems, the war in Chechnya, financial problems and serious economic crisis,¹⁶ the absence or weakness of associated institutions, etc.

And finally, the political situation inside Russia at that time was quite difficult.¹⁷ So even if there was a gradually growing understanding of the importance of the post-Soviet area, including Central Asia, Russia's policy of strengthening its positions in the area was characterized by inconsistencies and contradictions right up until the end of the 1990s.

Because of all these reasons, by 2000, when Boris Yeltsin left the presidency, the only results of Russian policy in Central Asia were political support for the Russian military presence in Tajikistan, some cooperation with Kazakhstan and Turkmenistan in the export of hydrocarbons and various declarations about the need to develop closer cooperation with each other.

But the later 1990s were also a formative period in the reemergence of Russia, because it started to re-think its internal and foreign policies, including its relations with Central Asia, and place in the international system. At the end of the 1990s there were few in the Kremlin administration who still was dreaming about the chances of Russia integrating with the West.¹⁸ At the same time, the significance of Central Asia and the rest of the post-Soviet space for Russian interests was becoming more clearly understood by government of Russia.

¹⁶ In the late 1990s the Russian economy was in deep crisis. The decline of industry and agriculture, the vast expense of the war in Chechnya, increasing problems in meeting foreign debt repayments and the exhaustion of the gold reserves (because of the low price of oil) all helped to limit Russia's scope for activity in Central Asia or any other part of the post-Soviet area.

¹⁷ In the period 1996-2000 there were five different prime ministers: Chernomyrdin (resigned 1998), Kirienko (1998), Primakov (1998-1999), Stepashin (1999) and finally Putin (1999-2000).

¹⁸ President Yeltsin made the following apologetic and revealing comment on television on 31 December 1999: "our hopes have not been fulfilled".

Central Asia policy under Putin Administration

The new president of Russia Vladimir Putin and his team in 2000 opened new era for Russia. Moscow's foreign policy began to be more clearly focused on making Russia return to international stage and strengthen economy. The concept of the "multipolar world" was at the heart of this strategy. Putin and his team made a big contribution to the process by taking practical steps to implement it in a new foreign strategy for Russia.¹⁹

The new administrative structures and personnel policies introduced by Vladimir Putin, brought some order into the government administration system and to the regions of Russia, there was now less unpredictability about Russia's foreign policies. Then there was an extremely rise in world prices for the main Russian exports, i.e. raw materials, particularly oil and gas. This was good for Putin's Russia. First of all, it was very helpful in resolving several domestic problems. Then some financial resources could now be used for developing new directions in foreign policy.

These directions became clear when Moscow realized that recovering Russia's positions in Central Asia and other parts of the post-Soviet area²⁰ was very important in strengthening Russia's international status. Central Asia began to be considered as a place where the new elements of foreign policy could be put into practice. This was made easier because Central Asian countries had remained friendly relations with Russia even after independence. Moscow's foreign policy activity in Central Asia became much stronger, and the multiple declarations about the "need to develop closer ties of cooperation" began to be matched by action for the first time.

The fundamental shift in Russia's policy in Central Asia was marked by the decisive actions taken to develop institutional cooperation. Moscow concentrated on finding new ways and formats for integration, rather than refreshing the old ones. Russian policy proved to be very flexible, in that Moscow encouraged several integration

¹⁹ In 2000 the Ministry for CIS Affairs, which really only existed for presentational purposes, was disbanded and replaced by a Directorate within the Foreign Ministry, headed by the former head of the Foreign Intelligence Agency V. Trubnikov. This department was made responsible for coordinating the work of various Russian authorities, notably the Foreign Ministry and the security organizations, in deciding the direction of future Russian policy towards the post-Soviet countries

²⁰ In 2000, in practically all his public pronouncements, Vladimir Putin stressed that the post-Soviet CIS countries were Russia's top priority in terms of foreign policy.

institutions simultaneously: the Eurasian Economic Community (EURASEC), the Unified Economic Space (UES), the Central Asian Cooperation Organization (CACO) and the Collective Security Treaty Organization (CSTO).

Eurasian Economic Community (EURASEC), proved to be the most effective institution. The "Formation of the Eurasian Economic Community" treaty was signed in 2000 in Astana (Kazakhstan) by Russia, Belarus, Kazakhstan, Kyrgyzstan and Tajikistan. The formation of EURASEC gave a rise to the expansion of cooperative activities between the countries in the community.

In 2002 EURASEC's Integration Committee established a "*Council for Transport Policy*". The main task of this council was to coordinate the activities of national transportation organizations, and to ensure that goods vehicles and passenger vehicles could transit the territory of member states without hindrance. In 2003 EURASEC was granted the status of an observer at the United Nations General Assembly. Another sign of the success of its initiatives was the accession of Uzbekistan to the organization in 2006.

In 2006-2007 some progress was made in moving towards a customs union for the member states. The presidents of Russia, Belarus and Kazakhstan signed a package of documents in Dushanbe (Tajikistan) in October 2007, setting out the legal basis.²¹ Russia, Belarus and Kazakhstan had reached preliminary agreement on signing these documents at an extraordinary session of the EURASEC International Council in Sochi (Russia) in August 2006.

Another initiative was **Unified Economic Space (UES)**. A "Formation of a Unified Economic Space" treaty was signed by Russia, Kazakhstan, Ukraine and Belarus in Yalta (Ukraine) in 2003. Since the "Orange Revolution" in Ukraine in 2004, however, and the subsequent political crisis in the country, yet fully resolved, the UES has looked rather like a still-born institution.

Central Asian Cooperation Organization (CACO) has merged with EURASEC. CACO was formed in 2002 from the Central Asian Economic Community which had

²¹ The documents signed were as follows: a "Customs Union Commission" treaty; a "Creation of a unified customs space and formation of a customs union" treaty and a protocol on "the procedure for enacting international treaties which lay down the legal basis for a union, acceding to them and withdrawing from them".

been formed in 1998, its members being Kazakhstan, Uzbekistan, Kyrgyzstan and Tajikistan. Russia joined CACO in 2003, and Uzbekistan joined EURASEC in 2005, thus making CACO a *de facto* component of EURASEC.

Collective Security Treaty Organization (CSTO) was formed on the basis of the Collective Security Treaty (CST) of 1992.²² The invasion of armed Islamist groups into Kyrgyzstan in 1999, Russia, Tajikistan, Kyrgyzstan and Uzbekistan took part in the joint military command-and-staff exercise CIS Southern Shield-99. In April 2000, Russia, Kazakhstan, Kyrgyzstan and Tajikistan agreed to create a CIS Antiterrorist Center (*Ministry of Foreign Affairs of the Russian Federation*) supported by the Russian Federal Security Service. In May 2001, the creation of a Collective Rapid Reaction Force was decided within the framework of the CST as a response to regional crises and a means to fortify porous border areas against terrorist attacks and incursions. In May 2002, the Collective Security Council decided at its Moscow session to transform the CST into the Collective Security Treaty Organization (CSTO) with the aim of deepening military and military-technical cooperation between its member states. Also in 2002, Russia, Kazakhstan, Kyrgyzstan, Tajikistan, Belarus and Armenia accepted the constitution of the CSTO in Chisinau (Moldova). In 2004 the CSTO was awarded the status of an observer at the UN General Assembly. Uzbekistan joined the CSTO in 2006.

Another important event for the CSTO took place at the Heads of State summit meeting in the autumn of 2007 in Dushanbe (Tajikistan). The main result of this meeting was an agreement that the CSTO would cooperate with the Shanghai Cooperation Organisation, thus forming the basis of a powerful military and political bloc in the post-Soviet area with the additional strength of China.

Development of cooperation with the countries of the region in defense and security matters is probably regarded by Moscow as the main vehicle for projecting its influence in the region, which is in line with the Kremlin's new foreign policy objective to raise its global status. The first step Moscow took to implement its policy of practical cooperation was the formation of the CIS regional anti-terrorist centre for Central Asia in

²² The Collective Security Treaty was signed by Russia, Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan and Armenia in Tashkent in 1992. Belarus, Azerbaijan and Georgia acceded to this treaty in 1993. The treaty was to cover the period up to 1999, after which the signatories were to decide whether it should be extended. In 1999 Uzbekistan, Azerbaijan and Georgia withdrew from the CST, citing its ineffectiveness and obtrusiveness.

Bishkek (Kyrgyzstan) in August 2001, which was staffed by personnel from the security services of Russia, Kazakhstan, Kyrgyzstan and Tajikistan.

The most activity in the defense and security spheres today is seen in Kazakhstan, Kyrgyzstan and Tajikistan. Moscow has learned its lesson from its mistakes in the 1990s, which led to an almost complete cessation of activity under the CST signed in Tashkent in 1992, and has begun to pay far more attention to encouraging the cooperation of the states of the region with Russia.

In 2002 Moscow offered CSTO member countries favorable terms for training their military personnel in Russian military training establishments. They were also offered the chance to acquire Russian weapons and military equipment for CSTO units at internal Russian market prices. In 2003, Russia opened a military air base in Kant (Kyrgyzstan). This base became a component of the CSTO's collective rapid reaction force. Also in 2003, Russia initiated within the framework of the EURASEC the signature process for the multi-lateral "Cooperation in the defense of the external borders of EURASEC member states" treaty. From 2004 onwards Moscow stepped up its cooperation activities within the CSTO organization and put them on a more systematic basis. In 2004 the annual "*Rubezh*" ("*Border*") exercises started, aimed at countering threats to regional security. The first joint "*Rubezh*" exercises were conducted in 2004 in Kazakhstan and Kyrgyzstan. Subsequent exercises were "*Rubezh-2005*" in Tajikistan, "*Rubezh-2006*" in Kazakhstan and "*Rubezh-2007*" in Tajikistan.

Russia today is pushing even harder for both bilateral and multi-lateral forms of cooperation, with Moscow assuming the role of coordinator in the process of setting up a regional security system. Thus at the CSTO summit meeting in Dushanbe in 2007, at Moscow's initiative, two packages of documents were signed which laid the foundations for the creation of a mechanism for CSTO peacekeeping activities and allowed for more cooperation in defense equipment supply matters.

Also the activity by Russian business in the economic sphere in Central Asia increased much more. Moscow's main strategic interests are, first of all, in the oil and gas sectors, where most of the Russian investments are. The biggest activity is in those countries of the region which have large hydrocarbon deposits (Kazakhstan, Turkmenistan and Uzbekistan). Here Moscow's efforts are directed towards location of

deposits and transportation of oil and gas. Russian companies, especially Gazprom, are also increasingly active in developing the market for petroleum-based products (especially Kyrgyzstan and Tajikistan).

The development of cooperation in the oil and gas sectors is seen by Moscow not so much as a mechanism for increasing its influence in the region as a means for increasing its own energy security. Russia's increasing demand for Central Asian hydrocarbons is due to the modernization of its own energy sector, to the need to fuel its own economic growth and to enable it to meet its own export obligations. Although Russia does have oil and gas deposits of its own, many of them are rather inaccessible or unprofitable, being in the Arctic, Siberia or the Far East and needs more investments.

But Russia's activity in the economic sphere, other than in the oil and gas sectors, has not changed very much since the 1990s, with Moscow still not paying much attention to the development of full economic links. One of the main indicators of the extremely low level of Russia's economic activity is the state of trade and economic relations, which although they have developed over the course of the last years are still at a low level compared with where they were in Soviet times. There has only been a significant increase in trade since 2003. And the share of the Central Asian countries in Russia's foreign trade has remained very low. But about 36% of the trade between Russia and Central Asia is in the hydrocarbon sector. *(Marlène Laruelle. 2008)*

After Putin's coming to power Central Asia began to realize that Moscow was ready and have more and real desire for decisive actions in terms of political, economic and military relations. When Russia re-defined the position of the region in its foreign policy priorities, and took a number of specific steps and initiatives, especially in matters of institutional cooperation, the Central Asian states began to see Moscow as a much more significant factor in their own foreign policies.

From 2000 Russia has taken more important steps in its foreign policy related all the Central Asian countries. In the case of Uzbekistan this was apparent after the Andijan events in May 2005, and in the case of Turkmenistan after the death of President Saparmurat Niyazov and the accession to power of Gurbanguly Berdimuhamedov in January 2007. The Central Asian countries were aware and are still aware of their need

for cooperation with Russia in order to kick-start the process of economic integration and to create a stable system of regional security.

That's why Russia achieved the most positive and rapid results in the field of institutional cooperation. Traditionally the countries which were most involved with Russia in terms of institutions were Kazakhstan, Kyrgyzstan and Tajikistan. This applied particularly in the vital transport and energy sectors. Thus since 2002, Kazakhstan, Kyrgyzstan and Tajikistan have been working with Russia, within the framework of the Council on Transport Policy of the EURASEC integration committee, on the question of creating unified tariffs, increasing the flow of goods, simplifying customs procedures and forming trans-national transport and goods forwarding corporations. In 2003 at the international council of the EURASEC a document was signed on "the energy policy principles of the countries of the Eurasian Economic Community". In this document the member countries expressed their intentions to work together for rational use of energy resources and to create a common EURASEC fuel and energy complex. In 2005 the EURASEC countries agreed on the creation of a customs union. Many agreements have already been made within the community on transport and communications.²³

But the major political breakthrough for Russia was Uzbekistan, which had had particularly cool relations with the Yeltsin administration and had been fostering strategic links with the USA since the mid 1990s. However in 2002 Uzbekistan announced that it was suspending its membership of the GUUAM organization, and soon after that, in 2004, it signed a "strategic partnership" treaty with Russia and in 2005 an "allied relations" treaty. In January 2006 Uzbekistan announced its withdrawal from the GUUAM organization and joined EURASEC.

Russia also had political success with Turkmenistan, which was made possible by the policy of the new leadership of that country which was aimed at reducing its international isolation. The president of Turkmenistan took part in the summit meeting of the Heads of State of the Shanghai Cooperation Organization in August 2007, and then

²³ These were as follows: an agreement on "unified conditions for transit through the territory of states of the customs union"; an agreement on "simplified customs procedures for goods transferred between member states of the customs union"; a protocol on "unified IT procedures for customs checking of goods and vehicles"; a protocol on the "organization of the exchange of information on the movement of goods and vehicles between the customs authorities of EURASEC member states".

hosted the summit meeting of the Prime Ministers of the CIS in Ashgabat in November 2007.

Kazakhstan, Kyrgyzstan and Tajikistan had traditionally sought to cooperate with Russia in military and security matters. In 2004 the Central Asian countries virtually formed a unified defense zone with Russia. In 2004, Kazakhstan, Kyrgyzstan and Tajikistan agreed in principle to modernize their air defense forces with Russian assistance, and granted Moscow long-term rights to use strategic military facilities on their territories. The most important of these were the "*Baikonur*" cosmodrom in Kazakhstan, the "*Sary-Shagan*" anti-missile test range in Kazakhstan, the "*Okno*" space communications centre in Tajikistan and the naval weapons test range on Lake *Ysyk-Kol* in Kyrgyzstan.

In 2006 Kyrgyzstan signed an agreement with Russia which would allow military equipment support worth 27 million dollars to be provided to Kyrgyzstan free of charge in the period 2006-2008. (*Zdzislaw Lachowski, 2007*) In 2007 Russia agreed to provide Tajikistan, free of charge, with the equipment and ammunition of the 4th Russian military base, amounting to a major reinforcement of the army of Tajikistan. (*Zdzislaw Lachowski, 2007, p.55*) In 2005 Uzbekistan also changed tack in the question of military and security cooperation with Russia. In that year Uzbekistan withdrew the American air base, which had operated near *Karshi* since 2001, and in June 2006 Uzbekistan joined the CSTO.

However, the Central Asian countries' expectations for economic cooperation have not yet been realized. As already mentioned above, apart from in the oil and gas sectors Russia has not been very active on the economic front. And the fact that Moscow still shows little interest in developing more meaningful economic links and regards the region as merely a supplier of hydrocarbons not only undermines the entire Russian Central Asia policy pushes the Central Asian countries to seek other economic partners.

The Central Asian countries, just as in the 1990s, are continuing their efforts to diversify their foreign economic links, and are pursuing a more balanced economic policy in relation to Russia. This is particularly apparent in questions of collaboration in the oil and gas sectors, the main vehicle for economic cooperation these days. On the one hand, the countries of the region are developing close links with Russia in the oil and gas sectors. There are already well-developed legal arrangements, both at bilateral and multi-

lateral levels, and the operations of Russian companies are increasing in scale. On the other hand, Kazakhstan and Turkmenistan, countries with significant stocks of hydrocarbons, are not reducing their efforts to diversify their foreign connections in the oil and gas sectors and are trying to reduce their dependence on Russia.

Though there were the major changes in Russia, mostly positive, during Vladimir Putin's presidency (2000-2008), the results of Russian foreign policy in Central Asia have not yet been an unambiguous success. Russia has succeeded in putting the brakes on the centrifugal tendencies of the region, in strengthening its own positions and in general overcoming the lack of trust which had accumulated during the 1990s. Clearly Moscow has brought more flexibility, pragmatism, stability and consistency to its Central Asian policy. This has been made possible largely by its growing understanding of the strategic importance of the area and by the allocation of more funds for foreign policy purposes.

But Russia has still not been able to fill the geopolitical vacuum in the area, still less the geo-economic vacuum. Moscow has still not understood the importance of developing full economic links with Central Asia. The impression is growing that it still understands the "strategic importance" of the region mainly in terms of its own revival as a "great power" and its desire to secure its own energy interests.

Furthermore, the extreme tardiness, caution and lack of initiative by the Russian foreign ministry and many analytical and research organizations, and the lack of analytical studies of the region or any demand for them, have also contributed to the failure of Russia to form a coherent policy towards Central Asia. As a result there have not been substantial steps in terms of forming closer economic links between Russia and the countries of the region, other than in the oil and gas sectors. The Central Asian countries, for their part, continue with their efforts to diversify their foreign connections, contributing to increasing competition in this geo-economic and geopolitical space.

Oil and gas relations

In recent years increased relations have taken place between the oil and gas sectors of Russia and Central Asia countries which possess significant resources of hydrocarbons and have the potential to export oil and gas: Kazakhstan, Turkmenistan and Uzbekistan. In the sphere of cooperation between Russia and the Central Asian states on

oil and gas matters, significant corner stones were the creation in 2002 of a "gas alliance" between Russia, Kazakhstan, Turkmenistan and Uzbekistan, and the approval in 2003 by the international council of EURASEC of the joint document "Principles of the Energy Policy of the member states of the Eurasian Economic Community".²⁴ From the political point of view, these events were the main factors leading to a breakthrough in cooperation in the oil and gas sectors.

From the economic point of view these events were perfectly natural in view of the structural interdependence of the fuel and energy complexes of Russia and all the countries of Central Asia. The oil and gas industries of Russia and the Central Asian republics were initially created as a unified whole. They developed in the following two directions:

- extraction, transportation and processing of natural gas;²⁵
- extraction, transportation and processing of oil.²⁶

During the Soviet era the Central Asian gas pipeline system provided gas to many industrial sites in Russia, Ukraine, as well as industries in their own region.

The main sources of gas extraction and supply were the Turkmen SSR (Soviet Socialist Republic) and the Uzbek SSR. The gas was supplied to various republics of the USSR as a standardized product. The quantity of gas produced in the Kazakh SSR at that

²⁴ Confirmed by decision of the international council of the EURASEC on 28 February 2003. In this document the parties expressed their intentions to work jointly towards the rational use of energy resources and the creation of a common fuel and energy complex by the countries of the Community, based on increasing the functional efficiency of energy systems, the development of the transit facilities of the EURASEC member states and the creation of favourable conditions for increasing the level of international energy exports. Source: EURASEC official site (<http://www.evrases.com>)

²⁵ Extracted natural gas is processed in gas processing plants before being supplied as a commercial product via gas pipelines. The main operation performed on it is cleaning, i.e. the removal of contaminants such as sulphur, dust, moisture and other substances. The commercial-standard gas is then used for conversion to electrical energy in thermal power stations and in the chemical industry for derivation of a number of chemical products. In the post-Soviet states, natural gas is used mainly for electricity generation, whereas in developed Western countries it is mainly used in the chemical industry

²⁶ Oil after extraction is subjected initially to a similar process to natural gas, i.e. it is cleaned of sulphur, solid particles, water and other substances. Further refinement is in the form of fractional distillation, from which various petroleum products are obtained, including furnace oil (which is the residual fraction). Furnace oil is used either in thermal power stations for electricity generation or for further refinement by the cracking process, producing other petroleum products. In the former Soviet Union and the post-Soviet states furnace oil was and still is used mainly for electricity generation, whereas in developed Western countries it is used primarily in industry for conversion into other petroleum products.

time was small. All the gas produced in that republic was designated for use in the republic.

In 1990 the quantities of natural gas produced in Turkmenistan and Uzbekistan were about 90.6 billion cubic meters and 45.5 billion cubic metres respectively. (*V. Paramonov, 2007*) Turkmen and Uzbek gas was transported by two major pipelines: the "Central Asia - Centre" pipeline, designed to carry about 68 billion cubic meters per year, and the "*Bukhara-Ural*" pipeline, designed to carry about 19 billion cubic meters per year.

Most Turkmen and Uzbek natural gas is still transported via the same pipelines to Kazakhstan, as it was in Soviet times. Russia buys Turkmen gas at a price which is a fraction (20-33%) of world level and sells it on to Ukraine at a slightly higher price, but still below the world level. In 2006, for example, until September Gazprom was buying natural gas from Turkmenistan for 60 dollars per thousand cubic meters and selling it on to Ukraine for 95 dollars per thousand cubic meters (the world price in September 2006 was about 260 dollars per thousand cubic meters). In September 2006 Gazprom increased the purchase price for Turkmen gas from 60 to 100 dollars per thousand cubic meters. In 2007 the price of natural gas for Ukraine rose to 135 dollars per thousand cubic meters (while the world price in April 2007 was 274 dollars per thousand cubic metres. (*V. Paramonov, 2007*))

Natural gas is bought from Uzbekistan by Gazprom at the same price as that from Turkmenistan. However, there are fewer transportation problems between Russia and Uzbekistan than between Russia and Turkmenistan. This is largely because Russia is a direct user of the gas from Uzbekistan rather than an intermediary for selling to third parties.

In the future both Turkmenistan and Uzbekistan plan to increase their exports of natural gas to the foreign market. In 2010 Turkmenistan plans to increase the volume of gas extracted to an annual figure of 120 billion cubic meters and the volume of gas exported to more than 100 billion cubic meters. The exported quantity will be distributed as follows: about 60% to Russia,²⁷ about 30% to China²⁸ and about 10% to Iran. After 2010 Turkmenistan plans to increase the quantities of gas extracted and exported substantially, so that by 2020 they will reach 240 and 170 billion cubic meters respectively. Uzbekistan plans to maintain its present level of gas extraction

²⁷ An agreement on cooperation in the gas sector was signed by the governments of the Republic of Turkmenistan and the Russian Federation in Moscow in 2003.

²⁸ Via a pipeline due to be commissioned in 2009. A general agreement on the construction of a pipeline from Turkmenistan to China and the sale of natural gas was signed by the governments of the Republic of Turkmenistan and the People's Republic of China in Beijing in April 2006. The construction of the pipeline was to be financed by China. This project for the construction of the pipeline was ratified by the Chinese Ministry of Economic Planning in September 2006.

at 60-65 billion cubic meters until 2010, and to increase the proportion exported, mainly at the expense of domestic consumption. It is proposed to increase the quantity exported to 20 billion cubic meters, with domestic consumption reducing from the present 49 billion cubic meters to about 43 billion cubic meters.²⁹ (*V. Paramonov, 2007*)

In the Soviet era, the structural interdependence between Uzbekistan, Kazakhstan and Turkmenistan was characterized by the need for close coordination to support the efficient operation of a unified Central Asian gas transportation system. The interdependency in the gas sector between Turkmenistan, Uzbekistan and Kazakhstan has not really changed very much. The structural interdependence of Russia and the countries of Central Asia in the energy sector is much reduced now compared with Soviet times. The reduced volume of trading in oil and gas between these countries is a reflection of this, and the previous well-developed cooperation plan between republics has been wholly or partly destroyed.

The main reason for this is that with the disintegration of the Soviet Union the whole system of organizing economic activity in the unified state, with its command economy, disappeared. And it has not yet been replaced by a new system or an effective method of regulation of international economic relations based on market principles. The collapse of the unified economic entity that was the Soviet Union has been catastrophic for the refining industries of all the post-Soviet states. This had a negative knock-on effect on the oil refining industry in Russia and other states in the region by reducing the previous levels of technological contact between the energy companies of the various countries, who now directed their attention more to exporting hydrocarbons. So not only has there been a decline in refining capacity, but more of the hydrocarbons are now being exported to foreign countries.

Such interdependency as there is between the petroleum industries of Russia and the other states in the region is still determined mainly by the economic and geographical ties between the Central Asian states and by Russia's monopoly position when it comes to transporting oil and gas out of the region. The system of interdependence in energy will probably decline even more in the future. This will make it less likely that the present

²⁹ Uzbekistan has much less scope than Turkmenistan to export natural gas, because of the high level of domestic demand, due partly to the presence of energy-consuming industries like the major branches of the ferrous and non-ferrous metals industries.

privileged position of Russia in the oil and gas industries of Central Asia will be maintained. The reasons for the decline in structural interdependence are:

First of all, the structural interdependence between Russia and the countries of Central Asia is only being restored slowly, and there are no signs of this process speeding up.

Secondly, cooperation between Russia and Central Asia in the oil and gas sector is inadequately supported by international cooperation in other branches of industry

Finally, international interest in the region is increasing, due to the growing demand for hydrocarbons, not only in China but also in Western countries and developing countries. This is putting more pressure on the competition for hydrocarbons in Central Asia and their transportation routes. Kazakhstan and Turkmenistan, the main hydrocarbon exporting nations in Central Asia, are already tending to redirect their exports of hydrocarbons towards China. This tendency is likely to lead to a conflict of energy interests between China and Russia in Central Asia.

Russia has an interest in widening access to the Central Asian hydrocarbon deposits and transporting them across Russian territory. The rapidly developing China is just as interested in tapping the hydrocarbon potential of the region for the development of industry in its Western provinces. This probable conflict of energy interests between Russia and China in Central Asia could cause problems for the multilateral format of cooperation in and around the region, as both Russia and China have considerable potential to affect the processes of development of the whole of Central Asia.

A number of attempts to analyze and comprehend this problem have already been made and are worthy of note: the science and business conference "The Central Asian Energy Market: trends and prospects" held in Tashkent in December 2005 and the round table discussions on "Prospects for creating an Energy Club within the Shanghai Cooperation Organization" held in Tashkent on 25 February 2007, organized by the Centre for Political Studies, Tashkent, with the support of the SCO secretariat. At these events consideration was given to the idea of creating an "integrated market, serving the SCO area" (*Karimova G, 2006*)

Development of Existing Gas Pipelines

• *Korpedzhe-Kurt-Kuli gas pipeline (Turkmenistan-Iran)*

In February 2006 agreements were concluded with Iran for transmission in 2007 of 14 billion cu m of gas per annum through Korpedzhe-Kurt-Kui gas pipeline. Even if obligations under these agreements are performed, this main line will not compete with GTS SATs both due to its limited capacity and absence of acute need for its development on the part of Iran. Korpedzhe-Kurt-Kuli gas pipeline should have become the first stage of the still unfinished Turkmenia – Iran – Turkey – Europe gas pipeline.

• *GTS SATs (Turkmenistan – Uzbekistan – Kazakhstan – Russia – European consumers)*

Supplies of Central Asian gas under contracts concluded by Gazprom amount to 100 billion cu m per annum beginning from 2009 (taking into account 10-12 billion cu m per annum of Uzbek fuel). Hence, volumes of gas transmitted through SATs should be increased by 45 billion cu m per annum, while the Russian one – by 30 billion cu m per annum. By modernizing the existing SATs network, its capacity may be increased up to the planned 60 billion cu m of gas per annum. It means that a new line is to be built with the capacity of 30 billion cu m of gas per annum. Within the framework of GTS SATs modernization, in recent years a number of projects aimed at expansion of gas transmission infrastructure has been successfully implemented:

- reconstruction of SCADA telemechanics system (Dovletabad – Deryalyk main gas pipeline);
- creation of custody transfer meter at Deryalyk compressor station where the overall volume of gas exported to GTS SATs is registered; two compressor stations – Yilandy and Deryalyk – are being reconstructed and additional lines are being constructed at crossing points with water collectors.

The most recent work on modernization of GTS SATs part in Turkmenia has been carried out by 3 non-Turkmenian companies: ZanGas Hoch-Und Tiefbau GmbH (Austria)

and consortium of Ukgazpromstroy ZAO (Ukraine) and Caspro Pipeline Service Liechtenstein).

The consortium deals with design and construction of the overland section of Dovletabad – Deryalyk and Naip - Deryalyk gas pipeline networks at crossing points with Dostluk collector. The cost of project implemented against the order of Turkmengaz State Concern is USD 35.6 million. In accordance with the contract terms, construction works were to be commenced in June 2004 and accomplished in May 2006. Payment for the works performed by the consortium will be effected by natural gas supplies in 2005-2006 in the amount of USD 44 per thousand cu m of gas (the overall gas volume is 809.1 million cu m). The concern also deals with construction of Korpedzhe – Balkanabat oil pipeline (it connects deposits located in Gogerendat-Ekeremskiy oil-and-gas-bearing district and Turkmenbashinskiy complex of refineries).

Against the order of Turkmengaz State Concern, in 2005-2006 ZanGas Hoch-Und Tiefbau GmbH administered the project aimed at construction of a second bypass line of Central Asia – Centre IV gas transmission network (SATs-IV): length – 60 km and 52 km; diameter of pipes – 1400 mm; working pressure – 7.4 MPa. Design was developed by IPP VNIPItransgaz OAO1 and the Turkmenistan Oil and Gas Institute. The price of contract is USD 116.23 million. Turkmenistan will effect the payment by means of natural gas supplies in 2005-2006 in the amount of USD 60 per 1 thousand cu m of gas (the overall gas volume is 1937.17 million cu m) at the Turkmenian-Uzbek border.

Turkmenian gas transmitted to Russia through SATs is supplied to the Ukraine by Gazprom and sold by RosUkrEnergO. ZanGas (beginning from 2002) and RosUkrEnergO make part of Dmitriy Firtash's company. ZanGas performed works on repair and modernization of Turkmenian gas pipelines in exchange for gas (beginning from the 1990s).

Payment for construction, food, machinery and equipment by means of gas supplies has become a usual matter for Turkmenistan during the post-Soviet times. For example, Korpedzhe – Kurt-Kuli gas pipeline was constructed according to this financial scheme. The result of modernization should be the growth of GTS SATs capacity up to 60 billion cu m of gas per annum in order to increase volume of gas exported within the framework of agreement concluded between Gazprom and Turkmengaz

New line of GTS SATs

As modernization only is not sufficient, a new pipeline will be constructed with the capacity of min. 30 billion cu m of gas per annum. The most optimal route should be established within the framework of agreement concluded between Gazprom and Turkmengaz. From the point of view of Gazprom, gas pipeline should run along the existing route. In this case, in experts' opinion, investments in the project will not exceed USD 2 billion. Gazprom expresses readiness to make investments in construction independently but it wants to obtain results of instrumental examination of GTS SATs technical state, as well as results of hydrocarbons reserves examination in Turkmenistan within the framework of investments feasibility report preparation.

Turkmenistan lobbies one of the two other routes passing Uzbekistan along the Caspian Sea coast. In this case, the gas transmission infrastructure of Turkmenistan may reach the Caspian Sea in future, hence, it will be much easier for Turkmenistan to participate in transmission of gas to Europe through the potential Trans-Caspian gas pipeline which will be constructed without participation of Russia and implement the project at Gazprom expense. Niyazov preferred Turkmenistan to be an independent player in the international energy policy and matured projects aimed at construction of powerful gas pipelines to Europe and Asian- Pacific region (India, Pakistan, China and UAE) without the participation of Russia.

These projects confirm a multiple-choice approach of Turkmenistan to handling of the problem related to launch of Turkmenian energy carriers on the world markets. Selling of these energy carriers will allow Turkmenistan to become a key hydrocarbon material transit country in the north-south and east-west directions.

During the last few years Turkmenia has attracted attention of major companies offering services for construction of export gas pipelines - grand projects constantly advertised by the heads of Turkmenian fuel and energy industry.

• *Turkmenistan – Azerbaijan – Turkey – Europe*

The Trans-Caspian pipeline project has been actively supported by the USA. It was supposed to lay a 2000-km long gas pipeline along the bottom of the Caspian Sea at the depth of 200-300 m to Baku (Azerbaijan), then through Azerbaijan and Georgia to

Erzurum (Turkey). The approximate project cost was USD 2.5 billion. The planned date of works commencement was 2000; works accomplishment – 2002. PSG International Consortium (alliance of American companies Bechtel, General Electric and Shell) was the project operator.

Implementation of the project has been stopped due to interstate disputes between parties to the agreement for the Caspian Sea demarcation. From the technical and economic points of view, Azerbaijan gas (and Iranian gas – for the Trans-Iranian project) is more competitive in respect of supplies to Turkey than Turkmenian gas. However, Azerbaijan does not have the possibility to fill a large pipeline with its own gas.

Nabucco (Turkmenistan – Azerbaijan – Turkey – Bulgaria – Romania – Hungary – Slovakia pipeline that is further divided into several lines: Austrian, German and Czech) is an alternative Trans-Caspian European route financed by EU for the purpose of gas suppliers diversification

EU has already invested EUR 1.65 million and is going to additionally invest EUR 4.6-5.8 billion. The first stage of implementation was in October 2002. Botas (Turkey), Bulgargaz (Bulgaria), Transgaz (Romania), MOL (Hungary) and OMV Erdgas GmbH (a 100% subsidiary of OMV (Austria)) signed the agreement for setting up of Nabucco Company Pipeline Study GmbH (Vienna). In 2006, Brussels, Andris Piebalgs, European Commissioner for Energy, and ministers of Turkey, Bulgaria, Romania, Hungary and Austria signed the agreement for project startup. Experts did not exclude the possibility of Gaz de France participation. By the time such agreements are signed, political aspects of their implementation are already worked over from the theoretical point of view. However, as it was discovered, the project had not been agreed upon with Turkmenistan

In February 2007 its supposed section, the Baku – Tbilisi – Erzurum (South Caucasian pipeline) gas pipeline, was commissioned. T. Erdogan, President of Turkey, and K. Berdymukhammedov, a new president of Turkmenistan, supposedly reached an agreement on a “prompt” commencement of negotiations concerning the Trans-Caspian gas pipeline route. Erdogan promised to render assistance during negotiations with Aliev, President of Azerbaijan, concerning the Trans-Caspian gas pipeline, as areas of the

Caspian Sea disposed of by Turkmenistan and Azerbaijan could be argued about.

Turkmenistan can provide an alternative variant of pipeline route running along the bottom of the Caspian Sea passing a 20-km Azerbaijan sector of the Caspian Sea shelf but, taking the South Caucasian pipeline commissioning into account, it is unlikely that the project will be implemented.

• *Turkmenistan – Iran – Turkey - Europe*

Length of the gas pipeline is a. 2000 km. The project cost is USD 800 million. The projected capacity is up to 30 billion cu m of gas per annum during 30 years. The gas pipeline had to be filled from Yashlar and Dovletabad deposits (western part of Turkmenistan). The project was reviewed due to stoppage (in the end of 1997) of gas supplies by Turkmenrosgaz Turkmenian and Russian Joint Company (TRAO). The situation practically led to the export crisis in Turkmenistan. Against the order of Turkmenistan government, Sofregaz, a French company, prepared a preliminary feasibility report related to the Turkmenistan – Iran – Turkey pipeline construction. In 1998 Shell also decided to participate in Turkmenian gas export projects and forced Sofregaz aside. Shell preferred an overland route through Iran by using the raw material base of the well-known Dovletabadskoje deposit and included in the project construction of Turkmenian gas-feeding electric power stations network in Turkey, as well as connection of a future pipeline to the Bulgarian distribution network in order to launch Turkmenian energy carriers on the European market, in particular, in Hungary, Romania and Bulgaria. The US administration speaks out against the project as it insisted and keeps insisting on inadmissibility of any co-operation with Iran. In its turn, Iran has plans aimed at gas pipeline construction without the participation of Turkmenistan (or with participation of Turkmenistan as a junior partner) through the territories of Armenia, Georgia and Ukraine to Europe.

• *Turkmenistan – Afghanistan – Pakistan - India*

Government of Turkmenistan has always preferred to maintain good relations with that of Afghanistan. Turkmenistan conducted first negotiations with Taliban Movement in 1994. In 1997 Turkmenistan signed a protocol with Unocal (USA) which

became an operator for the project aimed at construction of the Turkmenistan – Afghanistan – Pakistan- India gas pipeline. In accordance with the protocol, the American company was entitled to establish a consortium.

Turkmenistan also conducted negotiations with Enron (USA). The new gas pipeline capacity would be 30 billion cu m of gas per annum. Date of accomplishment – in 2-3 years after commencement. The project was postponed in view of the unstable situation in Afghanistan and refusal of Unocal to continue the co-operation due to the act of terrorism on September 9, 2001.

Nevertheless, three countries confirmed their decision to implement the project by an intergovernmental agreement signed in 2002. The document does not envisage any financial or production obligations of the parties. Representatives of Delhi did not participate in the agreement. S. Niyazov believed that UNO might act as a political co-sponsor in the process of the Trans-Afghan gas pipeline construction. According to Niyazov, the Trans-Afghan gas pipeline is profitable not only to Turkmenistan that “gets additional access to wide international markets”, Afghanistan “on the territory of which the pipeline will run and, naturally, facilitate development of economic and social infrastructure” and Pakistan “the economy of which needs fuel”, the Turkmenian leader believed that the project “is also profitable to consumers at the international market who strive to provide themselves with alternative sources of energy for the future”. Officials of the USA support the project but the matter will not go further. In 2005 it was discovered that Penspen, an English company, intends to carry out technical and economic examination of the Turkmenistan – Afghanistan – Pakistan gas pipeline construction feasibility, as well as the possibility to commence construction in 2006. It was supposed to construct a 1680-km long gas pipeline running from Turkmenistan through Afghan provinces of Gerat and Kandagar and further through Pakistan cities of Kvetta and Multan to Fazilka in India located at the India – Pakistan border. According to estimates, the project cost should have amounted to USD 3.3 billion.

The major obstacle to the project implementation was the lack of financing sources. In 2006 Taro Aso, Japanese Minister for Foreign Affairs, announced that Japan was planning to participate in that project. The announcement might be considered an

intention of Japan to be a major project investor. The main project competitor is Iran that intends to build a pipeline through the territory of Pakistan and India.

• *Turkmenistan – Uzbekistan – Kazakhstan – China*

The most dynamically developing project. In 2006 a Joint Declaration and General agreement for Turkmenistan – China gas pipeline project implementation and Turkmen natural gas selling to Chinese People's Republic were signed. Under the agreement, beginning from 2009 the Chinese People's Republic was obliged to purchase Turkmen natural gas in the amount of 30 billion cu m per annum during 30 years. The approximate project cost is USD 10 billion. In February 2007 K. Berdymukhammedov, a new president of Turkmenistan, confirmed prior arrangements. All these projects are threatening Gazprom monopoly and contravene the possibility to execute its agreements for gas export supplies.

Niyazov was known for creation of Turkmenian gas artificial deficiency. Thus, taking into consideration agreements for gas supplies concluded between Turkmenistan and Russia (80 billion cu m of gas per annum during 25 years), China (30 billion cu m of gas in 2009), Iran (15 billion cu m of gas), Ukraine (30 billion cu m of gas) and 10 billion cu m of gas for own needs, it is possible to make a conclusion that deposits currently developed in Turkmenistan with commercial reserves of less than 3 trillion cu m cannot cover agreements already signed by Turkmenistan. The information is being currently discussed in Chinese mass media.

All these projects – Trans-Caspian to Europe, Trans-Iranian to Turkey, Trans-Afghan to Pakistan and Chinese – still exist on the paper which is to a great extent explained by political difficulties related to achievement of agreements with transit countries or political overtone of the projects.

New government of Turkmenistan

The new president of Turkmenistan laid a special emphasis on the fact that “natural resources will be utilized for the benefit of not only the people of Turkmenian, but the whole region as well”. He promised that “Turkmenia will be bound up by

agreements for supply of energy resources to the world markets”. However, K. Berdymukhammedov did not specify routes.

A. Miller will surely try to induce the Turkmenian leader to stay within the sphere of his gas monopoly influence. Among his arguments are the bulk purchase of the overall Turkmenian gas volume by Gazprom, expansion of Turkmenistan export opportunities at the expense of Gazprom right up to the reconstruction of the whole gas transmission network of Turkmenia and export diversification. One of Gazprom requirements may be consent of K. Berdymukhammedov to “gas OPEC” establishment.

After Niyazov’s death in January 2007, the future of Russian-Turkmen relations became a topic of discussion not only in Moscow and Central Asia, but everywhere there was interest in the fate of Turkmenistan’s natural gas. This gas – its reserves, production, and transportation – were and remain at the center of Russian- Turkmen relations

The new president of Turkmenistan Gurbanguly Berdymukhamedov is introducing a degree of liberalization in the country. In Moscow, his policy is dubbed the “Turkmen thaw,” referencing Nikita Khrushchev’s rule after the death of Stalin. He has granted greater access to the Internet, restored ten years of education for young people, promised to open branches of several Russian universities in his country, and restored Pensions

In foreign policy, the new leader has begun to move away from the notorious “Turkmen neutrality,” which meant the complete isolation of the country from the external world. He has made the country more open, intensively met with foreign politicians at home and abroad.

In 2005 Turkmenistan had signed a contract with Gazprom, according to which this Russian company remained the exclusive importer (and re-exporter to Ukraine) of gas until 2028. Of course, with such long term contracts, the price cannot be fixed and it is likely to grow in the future. Within the framework of the Caspian gas pipeline project, Russia monopolizes the purchase and import of Turkmen gas

After numerous negotiations about Russian-Turkmen gas cooperation, including those with the participation of Putin, former Prime Minister Mikhail Fradkov, Foreign Minister Sergei Lavrov, Gazprom head Aleksei Miller, and others, it became clear that despite the smile of the new Turkmen leader and his assurances of friendship, Ashgabad

and its Central Asia neighbors would conduct a multi-vector foreign economic policy. For Russia, this would mean the loss of the monopoly right to import Turkmen gas.

Kyrgyzstan is striving to achieve stability after serious changes in its domestic policy. As of today, this process is far from completion. However, the Kyrgyz economy is essentially open, which has resulted in large-scale investments by Russia and Kazakhstan. The country is dependent on gas supplies from the neighboring Uzbekistan. Kyrgyzstan, Uzbekistan, Kazakhstan are on the way to establishment of a hydro-energetic consortium. Due to these factors and the facts that Kyrgyz economy is surviving hard times and its foreign debt has exceeded US\$2 billion and continues to grow, it has nothing to do but seek for external perspective growth sources, focusing on any processes in the region, which can improve the situation inside the republic.

No significant geopolitical step can be neglected by major world powers and international organizations. In this connection, it is important to identify the vital interests of all outsider parties, which are active in the region, and the price of the question. According to forecasts, the trade turnover between Europe and Asia will reach US\$1 trillion by 2010. For Central Asia it means a noticeable boost to its role in the global politics. The vast resource potential, including energy carriers, the demand for which is still growing, make it possible to expect a permanent investment inflow to the region and growth of investment attractiveness of some national economies.

Kyrgyzstan has small reserves of oil and gas and similarly low levels of production. The energy sector in Kyrgyzstan cannot expect in the short term to become a significant source of economic growth for the country, but energy sector could promote the integration of the state into the world community as well as defend its national interests

Today countries cannot completely satisfy their own energy needs with only indigenous own energy resources. As a result Kyrgyzstan has found itself dependent on petroleum products from Russia, gas from Uzbekistan, and coal and crude oil from Kazakhstan.

Any economic activity is impossible without a steady supply of both electricity and water. At this point, the fuel-and-energy complex and water resources are not only the core of the process of the integration of Central Asia, but are also the main factors

that provide energy security to Kyrgyzstan. Ensuring balanced and rational usage of the fuel-and-energy and water resources that the region possesses as well as ensuring a reliable energy supply to consumers should become the main goal for cooperation between energy systems in Central Asia

To sum up, oil and gas projects in Kazakhstan, Uzbekistan and Turkmenistan are priorities of strategic importance for Russia and Russian companies. Today, each state plays a more or less equally important role for Russia. For this reason it is possible that, in the medium term, the present gap between the scales of project activity of Russia in the oil and gas sectors of Kazakhstan, on the one hand, and Uzbekistan and Turkmenistan on the other, will reduce sharply.

In the coming 5 years, Russian companies intend to invest between 14 and 18 billion dollars in the search for and development of oil and natural gas fields in Central Asia, primarily in Kazakhstan, Turkmenistan and Uzbekistan, but also in the pipeline infrastructure of the region.

Chapter 3

Russia's Energy Policy

Russia's energy policy has become the subject of increasing controversy. West and US fears that rising Russia, which is economically fueled by oil and gas could challenge existing power structures — and U.S. super dominance — on the international scene.

It has become commonplace to refer to Russia as an 'energy superpower'.³⁰ And this concept of Russia as an energy superpower is continuing to attract attention of all analysts. The gas conflict with Ukraine, as well as the sharp statements made by Alexei Miller, head of Gazprom, at a meeting with EU ambassadors on possible negative consequences of any attempts to limit Gazprom's activities in the European market, have both been met with alarm internationally.

Definition of Russia's as 'energy superpower' is interpreted in different ways... In the political sense, the concept of a 'superpower' is related with certain forms of behavior: "A powerful and influential nation, especially a nuclear power that dominates its allies or client states in an international power bloc"(*The American Heritage, 2004*).

Russia represents an enormous global stabilization reserve (together with Alaska and several other territories) – a reserve of forest, water, oil and gas and so on. There are only two countries in the world – Russia and the USA (particularly with Canada and Mexico), that simultaneously have large reserves of coal, gas, oil, atomic energy, hydro plants, and resources for new energy types – wind, tidal energy etc. However, the USA is still a net importer of energy, while Russia is a net exporter.

And there are currently two "recognized" energy superpowers globally, both of whom have the largest reserves and production in their areas of energy. Russia has the world's largest reserves of natural gas, and is the world's largest gas producer and exporter (*EIA, 2006*), while Saudi Arabia has the world's largest conventional oil reserves and maintains the world's largest crude oil production capacity. (*EIA, 2006*).

³⁰ . The term was used a handful of times in the 1990s, but only really came into more widespread usage in the wake of the Russia's interruption of natural gas supplies to Ukraine in January 2006.

Top World Oil Producers, Exporters, Consumers, and Importers, 2006
(millions of barrels per day)

Producers ¹	Total oil production	Exporters ²	Net oil exports	Consumers ³	Total oil consumption	Importers ⁴	Net oil imports
1. <i>Saudi Arabia</i>	10.72	1. <i>Saudi Arabia</i>	8.65	1. United States	20.59	1. U S	12.22
2. Russia	9.67	2. Russia	6.57	2. China	7.27	2. Japan	5.10
3. U S	8.37	3. Norway	2.54	3. Japan	5.22	3. China	3.44
4. <i>Iran</i>	4.12	4. <i>Iran</i>	2.52	4. Russia	3.10	4. Germany	2.48
5. Mexico	3.71	5. <i>United Arab Emirates</i>	2.52	5. Germany	2.63	5. South Korea	2.15
6. China	3.84	6. <i>Venezuela</i>	2.20	6. India	2.53	6. France	1.89
7. Canada	3.23	7. <i>Kuwait</i>	2.15	7. Canada	2.22	7. India	1.69
8. United Arab Emirates	2.94	8. <i>Nigeria</i>	2.15	8. Brazil	2.12	8. Italy	1.56
9. <i>Venezuela</i>	2.81	9. Algeria	1.85	9. South Korea	2.12	9. Spain	1.56
10. <i>Norway</i>	2.79	10. <i>Mexico</i>	1.68	10. Saudi Arabia	2.07	10. Taiwan	0.94
11. <i>Kuwait</i>	2.67	11. Libya	1.52	11. Mexico	2.03		
12. <i>Nigeria</i>	2.44	12. <i>Iraq</i>	1.43	12. France	1.97		
13. Brazil	2.16	13. Angola	1.36	13. United Kingdom	1.82		
14. <i>Iraq</i>	2.01	14. Kazakhstan	1.11	14. Italy	1.71		

NOTE: OPEC members in italics.

1. Table includes all countries with total oil production exceeding 2 million barrels per day in 2006. Includes crude oil, natural gas liquids, condensate, refinery gain, and other liquids.

2. Includes all countries with net exports exceeding 1 million barrels per day in 2006.

3. Includes all countries that consumed more than 2 million barrels per day in 2006.

4. Includes all countries that imported more than 1 million barrels per day in 2006.

Source: Energy Information Administration (EIA). www.eia.doe.gov/emeu/cabs/.

Russia possesses the world's largest natural gas reserves - 26.6%, and the eighth largest proven oil reserves - 6.2% to 13% (according to different estimates), and the second largest coal reserves - about 20%. Russia is also the world biggest natural gas producer with 22.3% of global natural gas production and the world's leading pipeline gas supplier, the biggest exporter with 24.0% of global natural gas export (*International Energy Agency, 2006*), i.e., the world's number 1 oil exporter (together with Saudi Arabia). More than 90% of Russian energy exports today go to European countries. (*The Council on Foreign and Defense Policy, 2007*)

Russia also controls the export of oil and gas from Kazakhstan and Turkmenistan, since the export pipelines from those countries cross Russian territory. Oil and gas are the key to Russia's return to prominence on the international stage. Significant part of Russia's North-Western region is a resource fringe for Finland; part of the Far East is a resource fringe for China and Korea, and that Taimyr and its gas deposits is a resource fringe for Europe. Russia as a whole supplies the whole world, and today it represents something of a global reserve for the whole world. With its large size and natural wealth, Russia is source of all resources for all countries.

The meaning of the 'resource fringe' concept is mean dependence from production of one, two or three products. Several countries do not produce anything except their export goods, and their well-being depends on demand for these goods. A change in technology or an industrial crisis resulting in a slump in demand for these goods, when prices will fall, and export revenues with them can make big problems for these countries. Russia occupies, and has always occupied, a unique position in this regard

Russia has become the number one hydrocarbon exporter and key supplier. Europe and the developed world as a whole have become dependent on Russia. The external expansion of Russian companies that have grown up over the post-Soviet period irritates competitors and neighbors. Russia is coming out of a serious economic crisis and decline in refining to emerge onto the global market, primarily with raw materials. Its large raw-materials companies are attempting to return to certain markets. A net exporter of large amounts of energy, with the status of a great power and nuclear weapons, Russia is naturally going to be a powerful player in the global arena, attracting heightened attention and causing apprehension. At present, when oil prices are high, the West has become nervous with regard to Russia.

The Kremlin wants to preserve Russia's territorial integrity and to maintain its sovereignty in the face of foreign subversion. It also wants to insure itself against military threat.³¹ Before Putin's accession to power, outside observers saw the Russian economy as weak and stagnant, and the Russian state was regarded as corrupt and incompetent.

³¹ According to West and the US, Moscow wants to protect itself against such threats by building up its military muscle and trying to use its energy exports as a political weapon. But Kremlin says that want to use this 'energy weapon' to good effect. Trade is a relationship of mutual benefit and dependence between buyer and seller. Use of trade as a 'weapon' can hurt the supplier just as much as the customer.

Russia was a 'failed state,' incapable of providing domestic order, still less projecting energy abroad. In the 1990s, no-one was thinking of Russia returning to 'superpower' status.

Russia has exclusive position in the world energy policy and in the international markets of energy resources. On the one side, Russia participates in activity of "G 8" whose members are the largest importers of energy resources. On the other side, Russia is one of leading world exporters of hydrocarbon raw material and products of its processing. Because of a special role of Russia in energy world community, the energy policy of Russia and also the factors promoting strengthening its role in energy world market is became extremely important.

First priority of the Russian foreign energy policy and diplomacy are related with the CIS countries. Today priorities of energy policy of Russia in the Europe are not only questions of delivery of energy resources, but also cooperation in the field of construction and developments of oil-gas transport systems which should provide Russia new export routes. Also more attention is paid to interaction in technological sphere. The special attention has been given to power cooperation and on meeting at the summit Russia – the European Union in Samara in May, 2007. One more important direction of foreign energy policy is Asian-Pacific region. With this region Russia has important alternative directions of oil export

The Russian government is paying much attention to its energy policy, carrying on a dialog about future cooperation both with its traditional commercial partners (mainly EU and CIS countries) and with new partners (in particular with dynamically developing countries of the Asia-Pacific region). Russia is showing a desire to actively use its energy policy for building dialog with other countries in an effort to strengthen its position both in terms of foreign trade of energy resources and in terms of other issues.

Cooperation in the energy sector is of crucial importance for consumer countries because reliability and efficiency of supply influence conditions of economic development as well as everyday life and security of society. With today's geopolitical tendencies, globalization, supply and demand for energy resources in the world economy, and the supply and effective extraction of mineral reserves, risk management in the realm of energy supply becomes increasingly complicated. Long-term, effective and mutually

rewarding cooperation in the sphere of energy requires consistency, abidance to reached agreements, and through out and well-weighted decisions on the part of participating countries.

At the same time, it should not be overlooked that Russia is facing important issues not only in the realm of foreign trade cooperation, but also in the domestic economy. Russian industry is energy-intensive, and to the present day there have been no structural reforms, the prices in the sphere of electrical energy and gas are not fair market prices, and there are significant disproportions between the domestic and international prices for energy resources. Still, in order to preserve stability and meet the economy's demand for energy, most sectors of the fuel and energy industry require significant investments throughout the next 10-15 years.

There is a high demand for investment in the Russian fuel and energy industry due to insufficient funding of most branches of this sector during the last fifteen years and soaring demand for energy resources in Russian and world economies. This demand must be met not only for the sake of this sector's development, but also for the sake of ensuring security of the country's energy supply and its further economic development.

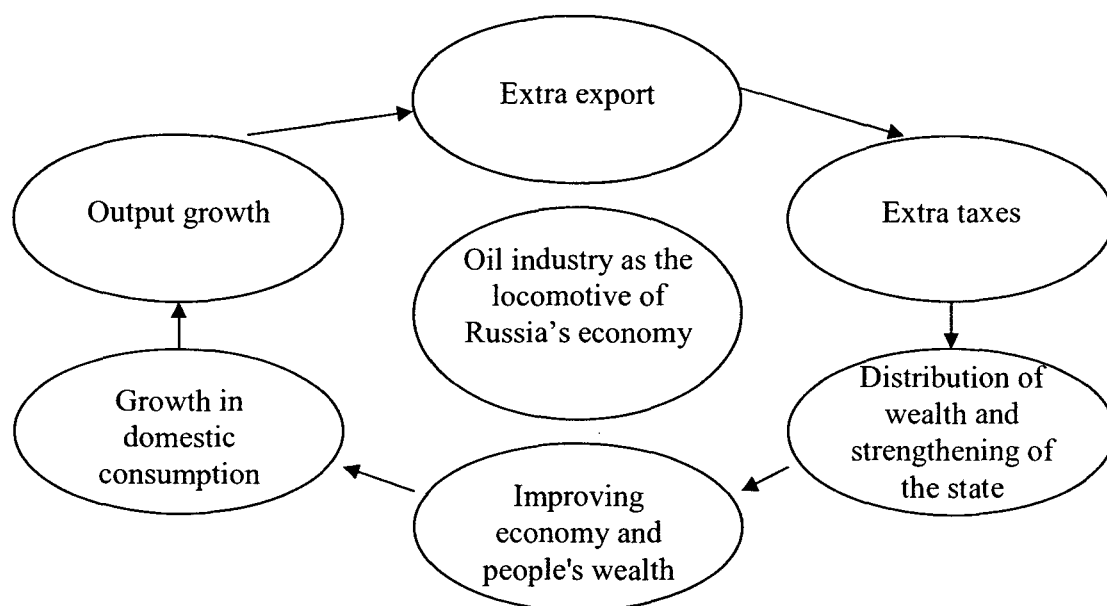
There have been many problems caused by this Energy Policy of Russia. In January 2005, following a pricing dispute, Russia cut off its gas supply to Ukraine for four days. This move also affected downstream consumers of Russian gas, raising concerns in Europe and elsewhere about possible implications of growing dependence on Russian supply. Russia chose energy security as a major theme of its first G8 Presidency in 2006, and in this framework conducted detailed discussions with its partners.

The International Energy Agency and other analysts have expressed concern that Russia may not be able to meet the growing energy demand in all the markets it now aspires to supply. This is not a new concern, but has hit the headlines since the IAEA's June report on the subject. Although the country has one-third of the world's natural gas reserves, Gazprom's production is set to decline over the next few years.

Oil and gas production is the basis of Russian economy, the driver of Russian foreign and domestic policy. They have profound scientific and technological background, they managed to retain all material and human resources. They were the few Russian industries working and developing in the years of stagnation and draw-down of

Russian economy. The main parameter of Russian economic growth is oil-and-gas prices. Gross national product, the market parameters, the budget parameters, state and private investment activity, growth of the population well-being, a rise of apartment prices, inflation and many other things are dependent on them.

Russian government understands the risk of extreme dependence of the Russian economy on energy resources, first of all, their export and tries to take steps to change this situation. After the Soviet disintegration and privatization of the main industries, a large number of private oil companies appeared. Due to the huge Western demand for energy resources Russian oil-and-gas majors became the most powerful and influential players in the Russian corporate sector, and expand their business abroad very actively. More than half the places in Russian Top-10 companies are occupied by Russian oil-and-gas majors.



Since the end of the Yeltsin era, however, the Kremlin has centralized its control in the energy sector, while oligarchs that attempted to resist President Putin have been exiled, detained or persuaded to obey. Centralization has taken three main forms:

- The Kremlin has regained full control over state-owned monopolies in the sector – Gazprom, Rosneft, Transneft and RAO UES – which were in the past de facto privatized by their management.

- Private groups have been forced to pay higher effective tax rates, due both to formal revisions in the tax code which made tax evasion more difficult, and through informal pressure, while the YUKOS³² investigation served as a powerful deterrent to tax-minimization.

- Finally, the Kremlin has, with some exceptions, effectively sidelined regional governors, making their future directly dependent on President's will. Now in the energy sector governors have considerably less influence than before. In particular, they no longer enjoy veto power in licensing decisions.

Russian government tries to make Oil and gas industry the "locomotive" for Russia's economics again, avoiding becoming the *Petrostate* or obtaining the "*Dutch disease*". The Government tries to carry out the following strategy: extra taxes strengthen the state, distribute wealth in economy, improve people's wealth and stimulate domestic consumption.

Sector Overview

Russia has a huge oil-and-gas sector. Russia is the world leading independent oil producer³³, gas producer and deposits holder³⁴. Therefore speaking about Russia as "Energy Empire" first of all means gas, instead of oil. Russia has one of the longest pipeline systems in the world. Russia has a large export and domestic consumers of oil-and-gas³⁵ (*The Council on Foreign and Defense Policy, 2007*)

³² YUKOS Oil Company was a petroleum company in Russia which, until recently, was controlled by Russian billionaire Mikhail Khodorkovsky and a number of prominent Russian businessmen. In July 2004, Yukos was charged with tax evasion, for an amount of over US\$7 billion. Khodorkovsky was imprisoned and sent to Siberia, and others fled Russia. In the Western media and the Russian opposition media the high-profile arrest of Khodorkovsky is usually attributed to his activism in the Russian political process

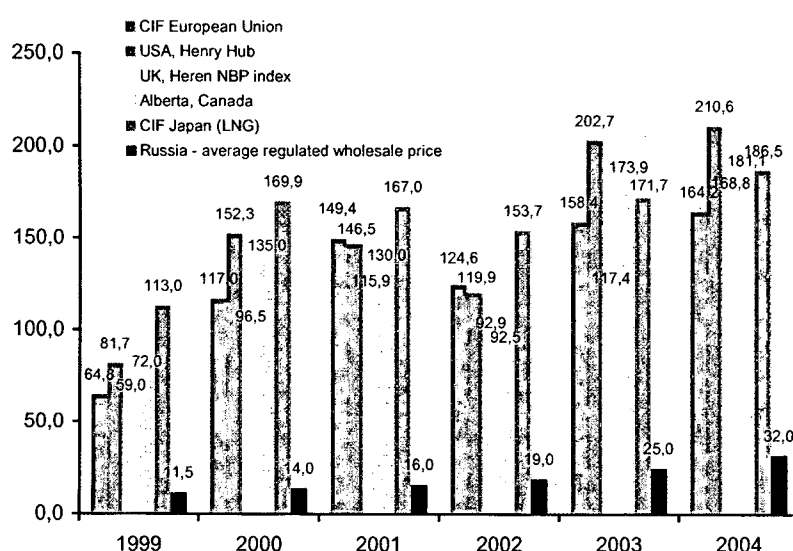
³³ It is the second after OPEC's Saudi Arabia - 22% of global proven oil reserves, 13.5% of global oil output

³⁴ Russia possesses 26.6% of global natural gas reserves, 6.2% to 13% (according to different estimates) of global proven oil reserves, and about 20% of known coal reserves.

³⁵ 227 mmt of oil and 165 bcm of gas are delivered abroad, 253 mmt of oil and 495 bcm of gas are consumed inside the country. The share of oil-and-gas export in total makes not less than 35 %. It (and huge export of timber, non-ferrous metals etc.) gives the basis to name Russia the raw export economy. Russian producers extracted 660 bcm/yr of gas. The main part of this volume is consumed inside the country (75%), the rest is delivered to Europe by system of pipelines. More than 90% of Russian energy exports today go to European countries. The EU, which accounts for only 3.5% of global proven gas and less than 2% of proven oil reserves (mostly in Norway and the UK) exploiting oil and gas deposits far more intensively than in other parts of the world. The main problem for the EU is its growing dependence on energy imports

The attractiveness of Russia as a supplier of energy resources is increasing, and the positions in the country's relations with the basic consumers are strengthening (except for the CIS countries which are trying to diversify the sources of delivery) due to the fact that for the last years a condition of supply of oil and gas in the world market as a whole have noticeably worsened, the prices have increased fourfold

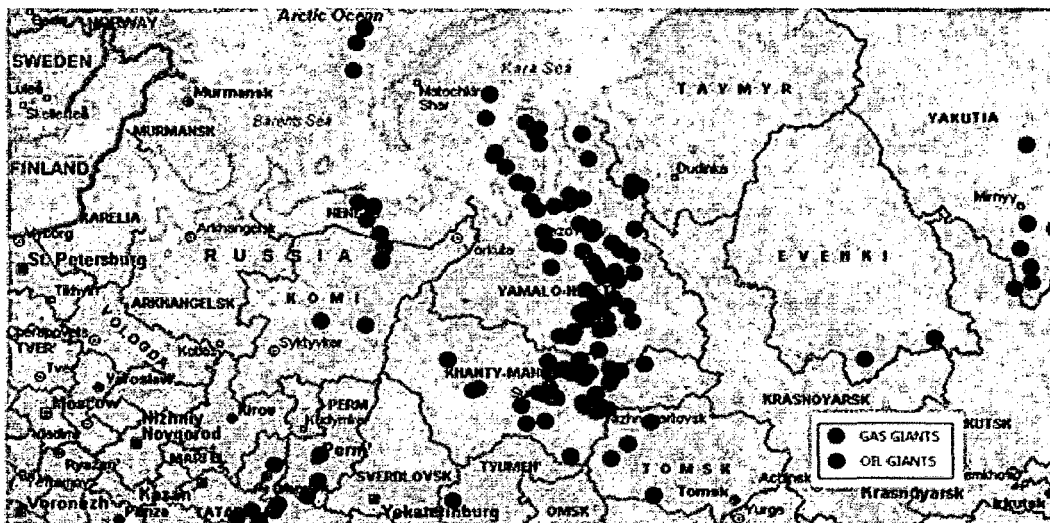
The average world prices for gas in 2000-2004 (\$, 1000 cube m)



Source: BP, Heren Energy Ltd., Natural Gas Week. 2005

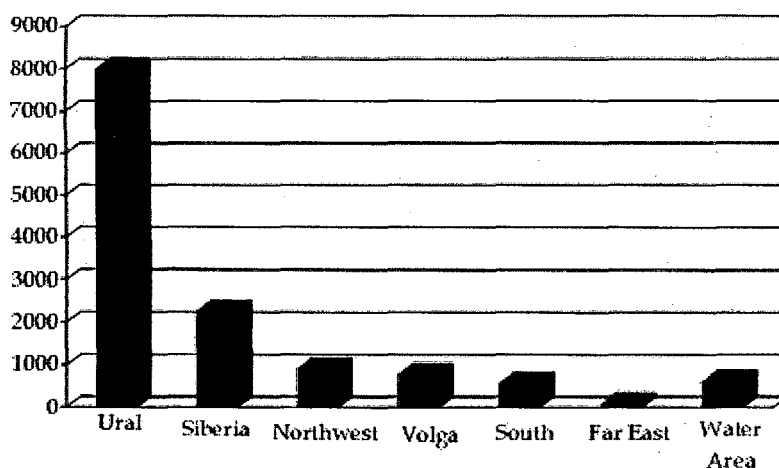
Besides, different forecasts promise the substantial growth of production and consumption of natural gas and oil in the future. The Russian gas prices for CIS countries are linked to European now. But the European gas prices fully depend on the world prices. This is a threat for Gazprom and Russia in European prices fall following fall in the world oil prices, reducing Gazprom's and budget revenues basically.

Main oil and gas deposits in Russia



The main developed gas deposits are located in 40 locations of the Federation. The majority of them - 69 % - are concentrated in Western Siberia; in Urals Mountains and in the Volga region - 17 %, in the European North of Russia - 7,8 %, in Eastern Siberia - 3,6 %.

Oil Reserves by Federal District of Russia, mln t

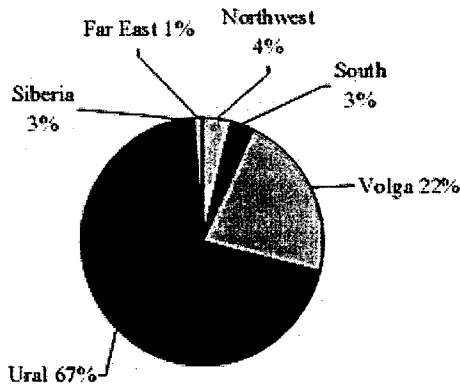


Source: VNIGRI (All-Russia Oil Prospecting Institute), 2002

Russia's main petroleum reserves are situated in Western Siberia. Large oil fields are also situated in Eastern Siberia, but their exploitation is yet to take off. The large oil fields closest to Europe are situated in the Northwest of Russia. They are concentrated in

the Komi Republic and in Nenets Autonomous Region, as well as in the Barents and Kara Seas. (*Sergey Boltramovich, 2005, p. 8.*)

Oil Production by Federal District of Russia in 2005



Source: Rosstat, 2006

The Urals Federal District occupies the leading position in oil extraction in Russia: about two thirds of the total national output. The second largest oil-extracting region is the Volga Federal District, where the reserves are significantly smaller. Other federal districts account for about 10% of oil extraction in Russia, but the Northwest can increase its share in the nearest future due to the development of new deposits.

Russia possesses great energy resources and a powerful fuel and energy complex, which are the basis of economic development and the instrument of carrying the internal and external policy. The economic growth forms the expectation of increasing demand for energy resources within the country. For providing all kinds of energy for economic growth of the country and improvement of life quality for own population, and to make most effective use of the natural fuel and energy resources, Russia needs a long-term energy policy, well-grounded and accepted by the society and government institutes

The Russian Energy Strategy

Soon after the dissolution of the Soviet Union, the Russian government began work on a new energy policy. The energy policy was formulated to provide Russia with a reliable supply of energy, to ensure the independence and security of Russia, and to support its potential to export energy, develop renewable resources.

In September 1992, the government approved the main provisions of the 'Concept for Energy Policy under New Economic Conditions' which aimed to look out to the year 2010. (*Presidential Decree, 1992*). The energy policy was formulated to provide Russia with a reliable supply of energy, to ensure the independence and security of Russia, and to support its potential to export energy. It also emphasized the need to develop a raw materials base, increase efficiency, and develop renewable energy resources. In November 1994, the Ministry of Fuel and Energy circulated a document entitled the 'Energy Strategy for Russia'. The subsequent 'Energy Strategy of Russia (Major Provisions)' was approved by the Russian government on 7 December 1994. (*IEA, 1995*)

On 13 October 1995 the Russian government followed up by approving a document known as 'Main Provisions of the Russian Energy Strategy'. (*Presidential Decree, 1995*) The turn then came to the natural monopolies. On 28 April 1997, President Yeltsin confirmed the 'Main Provisions of Structural Reform in the Field of Natural Monopolies'. (*Presidential Decree, 1997*) On 7 August 1997, the government approved the 'Programme of Means for Structural Reconstruction, Privatisation and Reinforcement of Control in the Field of Natural Monopolies'. (*Presidential Decree, 1997*)

Under the presidency of Vladimir Putin, the first changes came on 23 November 2000, when the Russian government approved a document known as 'Main Provisions of the Russian Energy Strategy to 2020'. (*Presidential Decree, 2000*). This was on 28 May 2002 followed by an 'Elaboration on the Main Provisions of the Energy Strategy of Russia to 2020' by the Russian Ministry of Energy.

The Russian energy strategy concludes that the goals of the Russian energy policy with regard to foreign countries include the need to strengthen the position of Russia in the global energy market and maximize the efficiency of the export possibilities of the Russian energy sector, and to ensure that Russian companies have equal access to foreign markets, technology, and financing. The energy strategy also mentions the need for a programme of modernization and construction of port terminals for the loading of energy resources.

Key goal for Russia is to ensure energy security, which is described as the most important. Russia wishes to establish a common energy space among the participating CIS States. It is in Russia's interest that Russian companies participate in projects to

broaden the energy transport infrastructure within the CIS. Russia will aim to acquire Central Asian and Caspian energy, in particular gas, in order to re-export it. The relationship between Russia and the energy-producing states may eventually lead to mutual dependence, with prices and export access set by negotiations. Russia will aim to promote Russian investment in the energy infrastructure of neighboring states.

Energy policy

State control over much of the energy infrastructure also means that Russia finds its energy policy a vital part of various issues of national security. In 1992 the Russian government approved a concept of new energy policy in new economic conditions, and made a decision to develop the Energy Strategy of Russia. Concept for Energy Policy under New Economic Conditions' which aimed to look out to the year 2010. (*IEA, Energy Policies.*)

Russia's energy policy is officially based on 2003 document entitled "Russia's Energy Strategy for the Period up to 2020" (*Energeticheskaya, 2003*) This document concretizes aims, tasks and the main trends of a long-term energy state policy for the period up to 2020. The main task is to determine the ways of achievement a new quality of fuel and energy complex, growth of competitive ability of its production and services on the world market. The key solution is creating civilized energy market and nondiscriminatory relations between its members.

The objectives of Russian energy strategy to secure Russia's political interests, in Europe and the neighboring countries and within the Asia-Pacific region with natural gas, and in the entire world with oil. (*Ibid, 61, 71*). However, it also contains the objective to remain a stable and reliable partner for the European countries and for the whole world community with regard to the export of energy (*Ibid, 41*)

There are several priorities set by the Energy Policy of Russia. These include energy development, technological development, becoming more energy efficient, and causing less of an impact on the environment. Strengthening control over energy development is necessary to create and realize main components of energy policy.

Development of internal fuel energy markets, formation of rational fuel balance, regional and external energy policy, social, scientific and technical and innovation policy

in the energy sector, etc are part of policy. The main tools for realization of policy are measures of economic regulation such as prices, customs, taxes and antimonopoly regime.

Realization of energy strategy is divided into two different phases:

By the end of the first phase (2009-2010) the initial phase of energy sector reform will be completed, which includes:

- formation of normative and legislative base;
- completion of transformations in the adjacent sectors of economy, placing them to a new level of energy effectiveness;
- realization of the export potential of oil and gas complex and achievement of stable positions of energy companies at the internal and external fuel and energy markets;
- transition from the impellent role of the fuel and energy complex in Russian economy to the role of an effective and stable supplier of fuel and energy resources for needs of economy and population

And second phase includes:

- Further growth of openness and competitiveness of energy markets in the framework of market infrastructure (first of all, energy and transport one), formed during the previous phase;
- use of nuclear and hydro energy sectors, coal industry, development of petrochemistry and gas chemistry; creating necessary basis for implementing prospective projects (including development of new provinces in the Eastern Siberia, Far East, Yamal and offshore) along with growth of annual investments into the fuel and energy complex;
- increase of contribution of the scientific and technical and innovation potential to energy sector;
- creation of basis for developing and transition to renewable energy in the future.

Several factors adversely affect on functionality and development of the fuel and energy industries and pose threat to the energy safety of country.

- high degree of depreciation of the main funds (more than 50 %);
- Deficiency of investment resources and their irrational use;
- deformation of price ratio regarding the interchangeable energy sources resulted in the absence of competition between them and led to such a demand structure that is characterized by excessive orientation toward gas and reduction of coal share;
- lag of the productive potential of fuel and energy complex from the world science and technology level;
- lag of the development and objective growth of costs for developing prospective raw materials base for hydrocarbons production, especially in gas industry;
- lag of the market infrastructure and civilized, competitive energy market; great dependence of oil and gas sector, and as a result of state incomes, on the world energy market conditions;
- absence of a developed and stable legislation that would fully take into account all the specifics of fuel and energy industries functionality.

So, for ensuring energy safety it is necessary upgrade the technological base of the fuel and energy complex and provide for the reproduction of its manufactured resource base. For ecological safety, it is necessary to achieve economic stimulation of highly ecological productions, ecologically clean low-waste and wasteless technologies of production, and strengthening of control regarding ecological requirements

External Energy Policy

The State energy policy is premised on the change from the role of supplier of raw resources to the role of substantive member of the world energy market. The strengthening of Russian positions on the world oil markets and on the gas markets is a strategically important task. Forming of the common energy and energy and transport infrastructure in the regions of Europe and Asia, development of the international energy and transport systems, providing of the indiscriminatory transit of energy are the strategic interests of Russia. For achieving these aims, the state going to foster the participation of Russian joint-stock companies in development and realization of the

great international projects of transport of gas, oil and energy both in western and eastern lines. For Russia, which has a unique geographical and geopolitical position, problems of transit have a special meaning. Russia has all the necessary conditions for effective export of energy resources and receiving of a good income from its transit functions

Russia want have a dialogue both with the producer and consumer countries, taking part in the work of International energy conferences, cooperating with the industrially-developed countries on the basis of declaration about cooperation with IEA and in the framework of G8, cooperating with the leading countries-exporters of oil – independent and the members of OPEC for providing the fair prices for energy resources.

According to this Energy strategy, the market of Central and Western Europe will remain one of the greatest markets in next 20 years. The main partners in the economic cooperation with the Asia-Pacific region and Southern Asia will be China, Korea, Japan, and India – the prospective markets of gas, oil, energy, atomic technologies and fuel and nuclear production sale. The markets of the Middle East, Southern America and Africa can be interesting as the consumers of services of Russian energy companies, and also as the importers of energy technologies and equipment for fuel energy complex

Decisions on which directions will be used when it comes to hydrocarbon transport infrastructure developments will, according to the energy strategy, be taken by the Russian government. Russian ports will be favored, and the state will support projects that aim to transit oil from the CIS countries through Russia. The energy strategy also indicates the need to have export port terminals not under the control of foreign powers. The energy strategy indicates that Russia must develop its pipeline infrastructure further.

The international activities of Russia within the energy sector should, according to the energy strategy, be (1) the export of energy resources, (2) exploitation of energy resources in other states, (3) increased participation in the domestic energy markets abroad, and taking control over energy resources and energy infrastructure in these countries, (4) attraction of foreign investments to the Russian energy sector, (5) work with neighboring energy firms, (6) transit of energy exports, and (7) international technical and legal co-operation.

Russia wishes to establish a common energy space among the participating CIS states. Not only would this confirm Russia's leading role in such a fuel and energy

system, it would also make economic sense since the fuel and energy industry of Russia and the CIS states was developed as a single system. At present, the goal is to strengthen, promote, and improve the integration of the common fuel and energy system for the benefit of its participants. (*Viktor Kalyuzhny, 2004.*)

The energy strategy points out in no uncertain terms that Russia will need to rely on the hydrocarbon resources (and in particular natural gas) of the Central Asian CIS states. This would allow Russia not only to save the gas deposits in the north for future generations and to avoid the need for immediate capital investments to exploit them, but also to alleviate the strains on resources that represent the strategic interests of Russia.

Russia at present does not have sufficient volumes of available gas to supply the full needs of Europe. Russia derives a large share (in 2002, 43%) of its electrical energy from gas-fired generators. Russia therefore hopes to increase the export of gas by substituting coal (Russia's coal reserves are expected to last far longer than its natural gas reserves) for domestic energy production. (*IEA, Russia Energy Survey 2002*) This was a slight increase from 42% in 1999. (*IEA, Russia Energy Survey 2002*). Power station coal consumption has been projected to increase by 1.5 to 2 times in the period up to 2020. (*IEA, Russia Energy Survey 2002, Energeticheskaya strategiya.*) Another way of looking at the issue is that more coal is needed to ensure energy security if goals for increased gas and nuclear production are not met. (*IEA, Russia Energy Survey 2002*) Russia also hopes to acquire and re-export gas from the CIS countries to Europe

It is in Russia's interest that Russian companies participate in projects to broaden the energy transport infrastructure within the CIS countries. Most important in this aspect will be the establishment and development of a unified electricity system (that is, to restore the unified grid that was broken up at the time of the dissolution of the Soviet Union), but the exploitation of oil and gas fields also remains a key concern. (*Energeticheskaya strategiya*)

Russia itself depended on transit routes to move the energy to its destination. In other words, Russia regarded itself as suffering from transit dependence. Russia wish continue export its own oil and gas resources, and if possible also those of the Caspian region, to the outside world through Russian pipelines or in Russian keels. To export through the Russian system is still, in most cases, cheaper than to build completely new

infrastructure. Some CIS states wish establish their own ties with the West rather than to continue exporting through Russia.

Russia wishes to acquire Central Asian and Caspian energy, in particular gas, in order to re-export it. This could be perceived as a negative development for the CIS states concerned in so far that they cannot themselves control the exploitation of their energy resources. Turkmenistan is an important example. Russia has tied up the Turkmen natural gas production for several years through a series of contracts, even though these do allow Turkmenistan higher gains from the sale than were previously earned. On 10 April 2003, Russia and Turkmenistan signed a 25-year agreement on gas co-operation that stipulated a gradual increase formula for the purchase of Turkmen gas.

On 21 January 2002, Putin proposed a “single export channel” for all gas exports from Central Asia and suggested that Russia, Kazakhstan, Turkmenistan and Uzbekistan form a Eurasian Gas Producers’ Alliance. As a consequence of Putin’s initiative, the presidents of Russia, Kazakhstan, Turkmenistan and Uzbekistan on 1 March 2002 signed a joint statement on co-operation in the energy sphere, and on protecting the interests of the countries that produce natural gas. (*Joint Statement, 2002*)

Russia will aim to promote Russian investment in the energy infrastructure of neighboring states. In July 2004, Putin recalled the Russian ambassadors to Moscow for a special meeting to review Russia’s foreign policy priorities. During this meeting, Putin emphasized that the priority tasks of Russian foreign policy were “to protect national economic interests, raise the investment attractiveness of Russia, and resist discrimination in foreign markets” but he also indicated the key importance of the CIS countries and pointed out that “relations between CIS states and Russia should be made as attractive as possible not only for us but also for them.” (*Vladimir Putin, July 2004*) That the energy sector would play a role in this was shown when Putin in the same week appointed Viktor Khristenko, Russian energy minister, new envoy to the CIS countries. Khristenko has a reputation as an economist who sees economic integration of the CIS region as a key issue. (*RFE/RL Newslines, 2004*)

This development should not necessarily be interpreted as an attempt to gain political control over these countries. Russia, however, feels that it makes economic

sense for the CIS states to co-operate in production, distribution and export of the available energy resources. The key word is re-integration, not political control.

However, these two concepts are for historical reasons often misunderstood among Russia's neighbors. Problems of history and geopolitics will cause problems for Russian investments in central Europe. The new EU members Estonia, Latvia and Lithuania were forcibly annexed by the Soviet Union during the Second World War and only regained independence in 1991. The Czech Republic, Slovakia, Hungary, Romania, Bulgaria and Poland were placed under Marxist rule by the Soviet Union, and Poland has a long history of annexation by Russia. Many in these countries still resent their past oppression and are quick to see Russian tendencies to resume political control. This is understandable. On the other hand, some in leading positions in these countries might also doubtlessly find these sentiments useful tools in the creation or fanning of populist resentment and scaremongering to advance individual political agendas; in both domestic and foreign policy. For them, even the Russian intention to avoid unnecessary transit fees can be seen as outright aggression.

So, does the Kremlin use energy diplomacy as a means to exercise economic pressure on foreign states? Does the Kremlin, for instance, use threats of the suspension of energy exports as a means to impose its will on other countries? There are numerous unsubstantiated rumours to this effect, most of which do not hold water upon closer inspection. Disregarding those, there have been a few limited cases when threats and ultimatums based on energy deliveries as a lever of state power have been used by the Russian government. These occasions should furthermore be distinguished from the numerous times when commercially independent Russian operators have temporarily suspended energy supplies for technical reasons due to faulty infrastructure or because of non-payment. The actual cases of Russian attempts at energy diplomacy, not surprisingly, all seem to date from the stormy years of the Yeltsin administration immediately after the collapse of the Soviet Union. More surprising is perhaps that these attempts did not bring the expected results to the Russian side, nor did much, if any, good in other ways. Indeed, considering the inability, and in many cases unwillingness, of many CIS countries to pay for energy deliveries, it is more surprising that energy supplies were not halted more often, and permanently so.

State control over much of the energy infrastructure also means that Russia finds its energy policy a vital part of various issues of national security policy. The Russian wish to avoid dependence, for instance, makes its leaders preoccupied with a wide range of perceived strategic threats in the same way that many CIS and EU countries instead perceive Russia as a threat

Russian pipeline projects

Russia possesses the longest pipeline network in the world. The total length of the pipelines is 216 thousand kilometers, including 153 thousand kilometers of gas pipelines, 48 thousand kilometers of oil pipelines, and 15 thousand kilometers of pipelines for oil products. The average density of the pipeline network is 12.6 kilometers per 1,000 square kilometers of the territory. The life time resource of a lot of pipelines is over, the reconstruction is a must. (*Sergey Boltramovich, 2005*)

Russian law prohibits the private companies to own trunk pipelines. All oil trunk pipelines in Russia are managed by state-owned (75%) Transneft. Oil products pipelines are also state-owned (100%) by Transnefteprodukt (will be subsidiary of Transneft in 2007). All gas pipelines belong to the state gas monopolist – Gazprom (51%). Russian oil-and-gas companies control only local pipelines – from the deposit to the trunk pipeline. Tariffs (including export tariffs) for the Russian pipeline transport are entirely controlled by the government. (*Sergey Boltramovich, 2005*)

Oil pipelines projects – Transneft

Transneft, Russia's state-owned oil pipeline monopoly plans to build the world's longest oil pipeline (4,188 kilometers) to transport oil from western and central Siberian oilfields to the Sea of Japan. Its route will pass Lake Baikal at no more than 800 meters and the terminal will be built on the Amur Bay in Primorye,

Eastern Siberia - Pacific Ocean construction



The project for the oil pipeline system Eastern Siberia – Pacific Ocean (ESPO) is being developed in accordance with Energy Strategy of Russian Federation for the period until 2020 and based upon analysis of long term forecasts of oil production and consumption in Russian Federation and future demand on Asia-Pacific markets. (*Transneft Company website, 2004*)

Burgas-Alexandroupoli construction

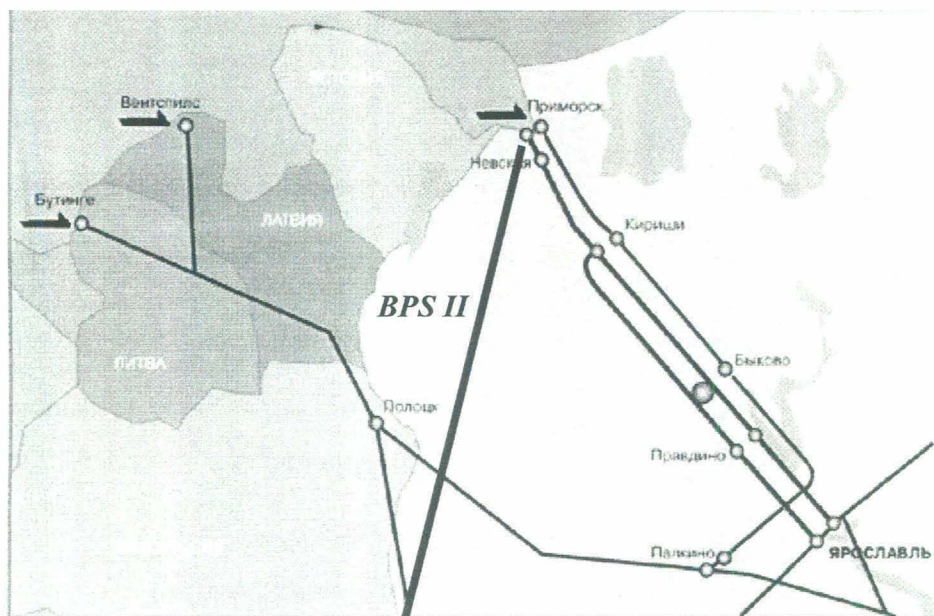


The Burgas-Alexandroupoli pipeline will bypass the Black Sea through Greece and Bulgaria and reduce the tankers transportation through overloaded Bosfor and Dardanelles.

The pipeline would have three oil refilling stations, two in Bulgaria and one at Alexandroupoli. It would be 279 km long, with a diameter of 900 mm, and would transport 15-23 mln mt of oil per year during the first phase, as well as 35 million during the second.

Oil from Russia and Caspian region will be transported by tankers from Novorossiysk to Burgas (Bulgaria) then by pipelines to Alexandroupoli. The project includes the sea terminal for tankers with 150 thousand t DW in Burgas and the sea terminal (150/300 thousand t DW) in Alexandroupoli. The pipeline is expected to be completed in 2009-2010 and it will cost 700 million euros. (*Transneft, 2007*)

Baltic Pipeline System II construction



The building direct Russian oil pipeline to Europe is an answer to Belarus as not reliable transit country. The pipeline 1200 km long, which will have an annual capacity of 50 mln mt, will run from the Russian town of Urecha, near the Belarusian border, to the Primorsk terminal bordering on Finland as a second leg of the Baltic Pipeline System, which will pump Siberian oil from Russia to Germany across the Baltic sea and on to the rest of Europe and the United States.

CPC expansion



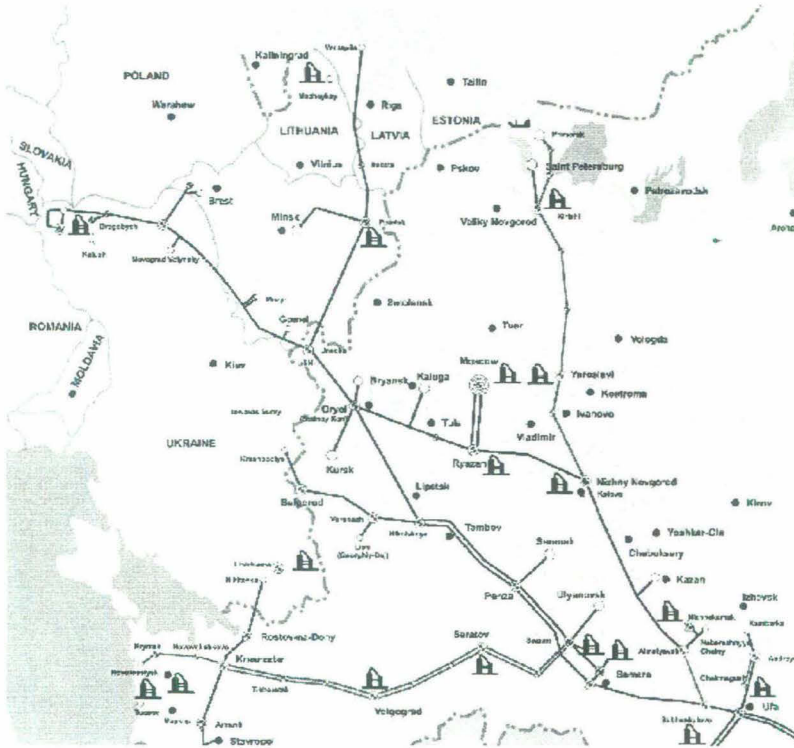
The length of the main pipeline that connects the oil fields in Western Kazakhstan with the new Marine Terminal in Russia is 1,510 km. Today CPC is the basic pipeline system for Kazakhstan oil export. The project for submission of the Russian oil in CPC has been carried out in 2004. CPC has a complex organizational structure. Three Governments and ten companies representing seven countries participate in the project. Two joint stock companies – CPC-R (Russia) and CPC-K (Kazakhstan) - have been created to implement the project.

In April 2003 the first phase of the CPC pipeline system was introduced into regular operations. By mid of the year 2005, CPC pipeline has reached its full initial capacity of 30 mln t a year (projected capacity 28, 2 mln t a year). *(CPC official website.)*

The development process for CPC to reach its full projected capacity is, however, not completed. CPC was designed from the outset to be expanded to 2.5 times its initial capacity. Kazakhstan produced about 60 mln t of oil in 2006. In 10 year Kazakhstan is going to double the production volume up to 3 mln bbls or 150 mln t a year. *(CPC official website.)*

Pipeline system reconstruction and modernization

Oil product pipelines - Transnefteproduct



Sever project

The project has been approved by Decree of the Russian Federation Government ? 853-p of June 24, 2002 and included in the government program "Energy-Efficient Economy." (*Transnefteproduct*)

Russia has only one terminal on the Baltic Sea – St. Petersburg, where light oil products can be transported for export (no more than 3 million tons per year and only through PA "Kirishinefteorgsintez"). The lack of own export pipelines in Russia leads to annual losses of the budget in the amount of \$200 million associated with the transit of oil products through the Baltic States. (*Transnefteproduct*)

In these conditions, Russia's strategic goal is to develop own export loading facilities of light oil products and the creation of oil product pipeline networks intended for export. This will enable an increase in the efficiency of export and ensure economic independence of the country from CIS and non-CIS countries.

One of the most promising areas is the construction of facilities for loading oil products for export on the Russian Baltic coast. In connection with this, the most rational

solution is the construction of a trunk oil product pipeline (TOPP) "Kstovo-Yaroslavl-Kirishi-Primorsk" (Sever) with access to the sea port in Primorsk, Leningrad region. The capacity of the oil products pipeline and the terminal is 24.6 million tons. The first stage of construction will ensure a capacity of 17 million tons per year. The first launch complex will provide 8.4 million tons. This port on the Finnish Bay coast is the most optimal solution from the point of view of using large-tonnage tankers.

Gas pipelines projects - Gazprom

According to the Russian Energy strategy the investments in Russian Gas Transportation will comprise \$17-18 bln in 2006-2010, \$20-21 bln in 2011-2015 and \$22-23 bln in 2016-2020. Gazprom is the customer of the most expensive pipeline projects in the world.

Yamal – Europe construction pipeline project



The project of a gas main Yamal-Europe which will allow to increase gas export to Europe and weaken transit monopoly of Ukraine is in a stage of realization and is close to end. But as it passes through the territory of Belarus with which "Gazprom" has the conflict similar to Ukraine in the end 2006 - the beginning 2007, the commissioning of the project is suspended.

Nord Stream construction pipeline project



Nord Stream is a 1200-kilometre-long off-shore natural gas (from Shtockman and Yamal fields) pipeline stretching through the Baltic Sea, from Vyborg, Russia to Greifswald, Germany which is to be built by Nord Stream AG.

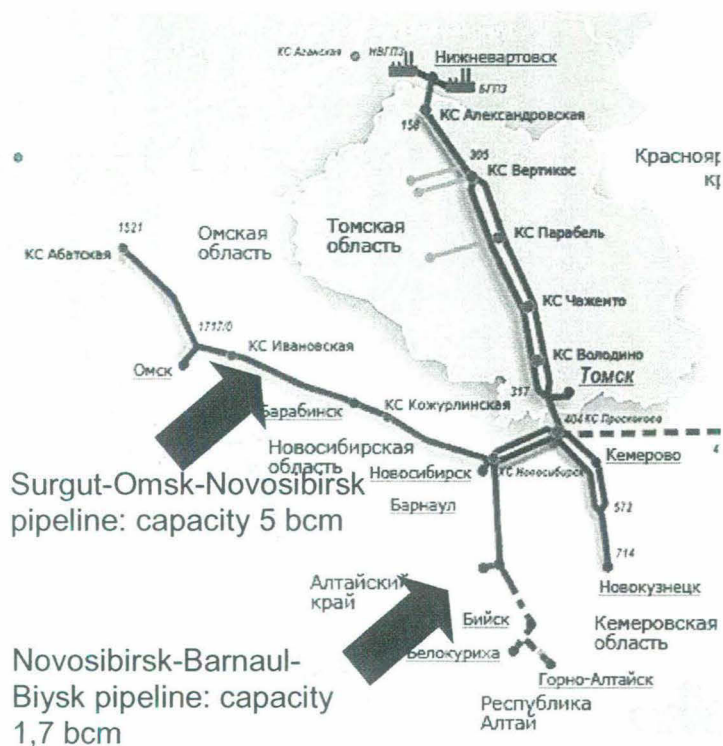
The Nord Stream gas pipeline is a fundamentally new route for Russian gas exports to Europe. The target markets for gas supply via Nord Stream are Germany, the Great Britain, the Netherlands, France and Denmark. The new gas pipeline is very important in terms of meeting the growing demand in the European gas market.

In December 2000, the European Commission assigned the Nord Stream project the Trans-European Network (TEN) status.

There are no transit countries on Nord Stream's route, which enables to reduce Russian gas transmission costs and exclude any possible political risks. Nord Stream will directly connect the Unified Gas Supply System of Russia (UGSS) and the European Gas Network providing the most reliable gas deliveries to customers in Western Europe. Nord Stream will also play a special role in deficit-free gas supply to the Kaliningrad Oblast.

In order to connect Nord Stream to UGSS, a new gas pipeline (917 km) will be built between the towns of Gryazovets and Vyborg on the territory of the Vologda and Leningrad Oblasts. Bringing this pipeline on stream will also make it possible to satisfy growing gas requirements in the city of St. Petersburg and the Leningrad Oblast. (*Gazprom*)

Altai construction pipeline project



In the beginning of 2006 within the visit of the Russian delegation to China applications that China and Russia will be connected by gas mains from Western Siberia to Northeast China and from Eastern Siberia to Northwest China have been made.

Pipelines from Western Siberia to Altai feature small capacity, not enough to ensure gas supplies to China in preliminarily agreed volumes. Besides, Omsk, Novosibirsk and Altai regions consume large part of gas currently transported through these pipelines. Therefore, it would be not enough just to build a short route to chinese border to ensure supplies – a new, large-scale pipeline from Western Siberia is required. Besides, Most Chinese energy demand is located in South Eastern areas - land pipelines from Russia no solution, Chinese net gas imports will not grow significantly (IEA forecasts 60 bcm by 2030), most of it will be satisfied through LNG.

On September 2006, Gazprom and the Altai Republic inked the Agreement of Cooperation aimed at organizing joint work to expand the Unified Gas Supply System to eastern Russia and implementing large-scale gas projects, primarily the Altai gas pipeline construction project.

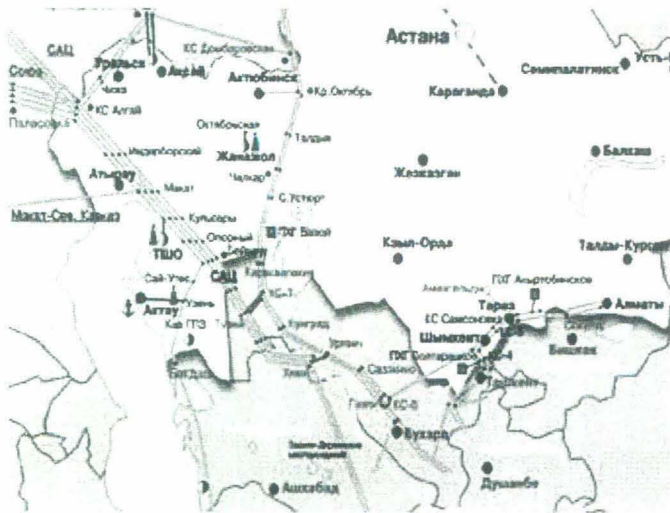
Russian natural gas will be delivered to the PRC from the Unified Gas Supply System of Russia via the two routes: Western route, from the conventional gas extraction provinces in Russia and Eastern route, from the Sakhalin fields.

Phase 1 of the West Siberian gas supply project is planned to see a new Altai pipeline network created within the existing transmission corridor, with extensions to be laid through the mountains. 1,420mm pipes and state-of-the-art potent compressor stations will be used during the gas pipeline construction.

First gas will reach China via the Altai pipeline through the Western section of the Russian-Chinese border. The Altai pipeline will link West Siberian fields with the Xinjiang-Uyghur Autonomous Region in western China where it will integrate into the West-East pipeline extending to Shanghai. The gas main length is 2,800 km.

At present, the project sees a feasibility study on supply routes being performed, with the decision taken to shift over to the investment justification stage.

GTS SATs Central Asia – modernization and stage II



Both during the Soviet times and at present Turkmenistan significantly depends on Central Asia – Centre Gas Transmission Network (GTS SATs) as it is the major means of natural gas transmission to Russia and further to its potential consumers.

The total length of Central Asia – Centre Gas Transmission Network in the territory of Turkmenistan is 3 940 km. Gas produced from the deposits in the eastern part of Turkmenistan is transmitted to the central areas of Turkmenistan through the gas pipelines network of GTS SATs (two lines: Davletabad – Shatlyk – Khiva – Centre, West

Turkmenia – Bekdash – Beinau – Centre). An interrepublican gas pipeline passing through Shatlyk - Ashkhabad – Bezmein has been built and is being currently utilized. Through three lines of the main line gas is further transmitted to the POS terminal – Deryalyk compressor station at the Turkmenian-Uzbek border. Length of route is 750 km. The gas pipeline network includes 5 large compressor stations and 23 block valves. The gas pipeline network in Turkmenistan is not unified, therefore, in the territory of Turkmenistan it is impossible to transmit gas from deposits located in the east to the gas pipeline in the west and vice versa.

GTS SATs further passes through the territory of Uzbekistan and Kazakhstan till it reaches Alexandrov Gay compressor station at the Russian border. GTS SATs was built in 1967-1985. It consists of 4 lines. GTS SATs planned capacity amounted to 60-80 billion cu m per annum; its current capacity is a. 45 billion cu m of gas in the territories of Turkmenistan, Uzbekistan and Kazakhstan and a. 70 billion cu m per annum - in the territory of Russia.

The main reason for decrease of capacity is the lack of investments for support and development of GTS SATs. In 2003 Russia and Turkmenia concluded the agreement for bulk purchase of the whole volume of gas limited to GTS SATs capacity (term of agreement – 30 years). The gas pipeline is filled from gas deposits located in the east of Turkmenistan.

Gazprom provides transit of Central Asian gas to the Russian and external markets and transits Turkmenian gas through the territories of Uzbekistan and Kazakhstan.

Supplies of Central Asian gas under contracts concluded by Gazprom amount to a. 100 billion cu m per annum beginning from 2009. Hence, volumes of gas transmitted through SATs should be increased by 45 billion cu m per annum, while the Russian one – by 30 billion cu m per annum. By modernizing the existing SATs network, its capacity may be increased up to the planned 60 billion cu m of gas per annum. It means that a new line is to be built with the capacity of 30 billion cu m of gas per annum.

The most optimal route of new pipeline should be established within the framework of agreement concluded between Gazprom and Turkmengaz. From the point of view of Gazprom, gas pipeline should run along the existing route. In this case, in

experts' opinion, investments in the project will not exceed USD 2 billion. Gazprom expresses readiness to make investments in construction independently but it wants to obtain results of instrumental examination of GTS SATs technical state, as well as results of hydrocarbons reserves examination in Turkmenistan within the framework of investments feasibility report preparation.

Turkmenistan lobbies one of the two other routes passing Uzbekistan along the Caspian Sea coast. In this case, the gas transmission infrastructure of Turkmenistan may reach the Caspian Sea in future, hence, it will be much easier for Turkmenistan to participate in transmission of gas to Europe through the potential Trans-Caspian gas pipeline which will be constructed without participation of Russia and implement the project at Gazprom expense.

USGS expanding and reconstruction

USGS (Unified System of Gas supply) actual capacity is about 570 billion cubic metre of gas per year, far below current volumes of gas production. Besides, the increase in quantity of gas storehouses with capacity of 10 % of the system which is far below the international standards is required. The accelerated modernization and replacement of the gas mains which have served term and the out-of-date compressor stations that will allow to lower losses of gas and its charge on technological needs is required.

The grave problem is the moral and physical deterioration of the Russian pipeline infrastructure. The skeleton of the pipeline system was created 50 year ago, about 15 % of pipelines have developed a resource and need replacement.

In 21 century energy recourses become primary cause of geopolitical tensions. The energy needs of the world are growing fast, and competition for energy is on the rise. In the West a growing fear, that Russia is a threat because it's using energy as a weapon to rebuild its empire.

Although Russia currently only reports 5 per cent of the world's proven oil reserves, unexplored fields in Russia's vast territory may well double that proportion. Central Asia holds another 3–4 per cent of proven oil reserves, the Kashagan field, discovered in Kazakhstan's section of the Caspian Sea in 2000, being the largest find since North Sea oil in the 1960s. Russia is building new pipelines to increase the flow of

oil and gas deliveries to Europe, and new gas pipelines across the Baltic and Black Seas to avoid being held hostage to transit disruptions by Belarus and Ukraine.³⁶ Growing hydrocarbon consumption in the world will substantially increase political risks and could cause new regional conflicts

Moscow has had more success in Central Asia. In May 2007, Putin sign an agreement with the presidents of Kazakhstan and Turkmenistan to build new a gas export pipeline across Russian territory and not across the Caspian Sea. That was a major blow to Western efforts to develop an east–west export route for Central Asia’s hydrocarbons. At the same time, Moscow has to deal with a growing Chinese presence in the region. Beijing raced to build a 1000 kilometre oil pipeline from Atasu in Kazakhstan to the Chinese, that was completed in July Q1 2005.

The energy needs of the world are growing very quickly, and competition for energy is rising and became more stronger. The outside world has in the 21st century come to regard Russia and the Commonwealth of Independent States (CIS) as increasingly important sources of energy for other countries, particularly in the West for reasons of energy security and energy diversification if no more.

While the European interest in Russian energy primarily lies in natural gas, the chief initial US interest is expected to be in oil. Certainly, it will soon need gas as well. The global energy scene, and especially when it comes to oil and natural gas, is not a purely business environment. Energy is not decoupled from international politics and geostrategy

Russia supported gas pipelines:

Burgas-Alexandroupolis is a 279 km gas pipeline that will run from Bulgaria's Black Sea port of Burgas to Alexandroupolis in northern Greece, thus bypassing the Bosphorus. Symbolically, it will be the first Russian-controlled pipeline on EU territory, carrying Russian and Central Asian oil straight to the EU. (*The Economist, European energy security, 2007*)

³⁶ Construction on Nord Stream started in 2005. It will cross the Baltic Sea from Vyborg to Germany. Blue Stream was finished in 2005 and brings gas across the Black Sea to Turkey. South Stream is planned to carry gas to Bulgaria, Greece and Italy, with a branch to Romania and Hungary.

Yamal-Europe-2: An extension project of the existing Yamal-Europe pipeline, currently under discussion. This project is particularly supported by Belarus, since the pipeline would be crossing its territory. However, for exactly the same reason the project is deemed less advantageous for Russia. Other factors that negatively affect the project are: a disagreement between Gazprom and Poland on the exact routing of the second branch as it travels through Poland. Gazprom aims for a route via southeastern Poland to Slovakia and on to Central Europe, while Poland wants it to pass through its own territory and then onwards to Germany. Also, Gazprom has failed to agree with Poland on the increase of its equity stake to 50 percent in EuroPolGas which limits Russian ability to manage/service the pipeline in the long-term. Moreover, due to tensions with Belarus Gazprom failed to establish control over Beltransgaz (the Belarusian operator of the Belarusian part of the pipeline). Due to these multiple reasons it appears that the project is about to be shelved, with Russia preferring to invest in an alternative Nordstream pipeline via the Baltic Sea. *(Milov, Vladimir., 2005)*

Extention of Blue Stream (Blue Stream 2): is a planned two-branch extention of the Black Sea pipeline line towards Bulgaria, Serbia, Croatia and western Hungary one way, and towards Israel and Lebanon through the other.

South Stream pipeline: A natural gas pipeline that, by crossing the Black Sea, would connect Russia directly to Bulgaria. It could deliver 30Bcm/year of natural gas via Bulgaria to Austria, Slovenia and Italy. Announced by Gazprom in June 2007, this project could replace previous plans to extend the Blue Stream pipeline. *(RZD-Partner, .2007)*

Nordstream pipeline (previously North European Gas Pipeline/NEGP), would extend over 1,200 km from Vyborg, Russia, on the Gulf of Finland, via the Baltic Sea to Greifswald in northeast Germany. The pipeline should be completed by 2010. The pipeline would provide Russia with a direct access to Germany, and from there on to the British Isles as well as the Netherlands. A possibly will be connection to Sweden.

The benefits of the pipeline include the avoidance of transit countries of Ukraine and Belarus. This should make sure the EU that the Russian relationship with the former Soviet transit states would no longer disturb Europe's gas supplies. Currently, roughly 80

percent of Russia's natural gas exports towards Western Europe are transported over the territories of the Ukraine⁷⁴, with another 20 percent through Belarus.

The negative aspects of the project include fears concerning the ecological impact on the especially fragile Baltic Sea basin. Also, there were fears that the project might disrupt some of the weapons remaining on the Baltic seabed following WWII; however, as to avoid this problem, the pipeline was recently rerouted, making it 8 km longer. (*Energy Industry Today*)

Transit issues

Transit issue a serious threat to both Central Asia and Russian security policy concerns and national interests, and any change would bring implications for Russia's strategy. Russia exports various raw materials to the Central Asian region in exchange for natural gas (supplies of natural gas to Russia are paid for partly in hard currency and partly in various Russian goods, including raw materials).

Without Central Asian gas Russia would be hard pressed to meet both its own domestic requirements and its obligations to supply gas to Western and Eastern Europe. And in the future, Russia will become increasingly dependent on these supplies from Central Asia. On the other side, the countries of Central Asia currently export their gas only through the Russian pipeline system and can maintain their gas extraction and transportation facilities only with Russian help.

The Russian goal has become building and increasing the capacity of as many export outlets, on its territory, as possible. Such export "outlets" can encompass export infrastructure such as pipelines, crude and product terminals, LNG liquefaction and regasification plants and LNG tankers, river barges, ice-breaking tankers, the absence of pipelines can influence on exports to world markets. For Russia it is vital to have as many export outlets under its control and operating at maximum capacity in order to defend important existing markets such as Europe and create new exports markets in Asia.

Chapter 4.

Impact of External Powers on Russia and Central Asia Relations

More than 2,000 years, Central Asia has been a meeting ground between Europe and Asia, part of the ancient trade route known as the Silk Road. About 100 years ago, the international oil industry was born in the Caspian/Central Asian region with the discovery of oil. Under Soviet rule, the existence of the region's oil and gas resources was generally known, but only partially or poorly developed. And it was isolated from world market.

This struggle in 21st century between Russia and US for Central Asia is defined as game on a the Grand Chessboard (Zbigniew Brzezinski, 1997), or the New Great Game “*The Great Game*” concept’s roots are from 19th century to describe the struggle between two imperial powers, Russia and United Kingdom in Central Asia. Struggle between these two powers could be described as the territorial control to protect their interests and described as *the Great Game*. This time the United States has replaced the United Kingdom, and Russia is a constant factor, seeking to regain both economic and political control of the region.

In the beginning of 20th century, Sir Halford Mackinder said that railway networks shifted balance of power and undermined the dominance of naval powers, and accessibility of landmasses brings new advantages. (Sarah L. O'Hara, 2004). And he claimed that,

*Who rules East Europe commands the Heartland,
Who rules Heartland commands the World Island,
Who rules the World Island, controls the world.*

In fact, this geography was one of the main concerns during World War II, which became one of the ultimate targets of Nazi Germany to reach Eurasian oil reserves, to make their mechanized forces to continue to operate.

Over the last decade, international commentary on Central Asia often turned to the imagery of the Great Game. In 19th century version, the Game was primarily a rivalry

between the two major colonial powers – the British and Russian empires -- for control over Central Eurasia.

In 21st century in the Great Game entered several numbers of players – US, West and rising regional heavyweights China. Russia and China increasingly seek to offset U.S. influence in Central Asia through enhanced cooperation conducted under the banner of the Shanghai Cooperation Organization (SCO). While its impact is often exaggerated, the SCO does offer certain benefits to the states of the region, as well as to Moscow and Beijing, that the United States can ill afford to ignore. The United States and its North Atlantic Treaty Organization allies play a critical role in Central Asia through their presence in Afghanistan, something that neither Russia nor China can match. Central Asia's geostrategic qualities keep America strongly interested in retaining access and building cooperative, stable relations with regional states. Russia and China oppose U.S. democracy promotion as naïve or subversive (or both). Yet neither has articulated a vision for systemic change and long-term stability in the region.

Russia's influence is a matter of its imperial and Soviet past, economic interdependence, and trading routes. Russia depends on Central Asian energy resources and labor, but its control over both gives it leverage over the region. China's influence has been growing due to expanding trade, acquisition of energy resources, and overall rise as a major power. China and Russia will remain significant actors in Central Asia, and advancing U.S. interests in this region will become more complicated if Russia and China are ignored. Dialogue and limited cooperation with both countries in areas of mutual interest should be important elements of a successful U.S. strategy for the region.

The latest conceptualization sees the Game as being largely driven by the desire of Russia and China to squeeze the United States out of Central Asia and establish their exclusive control over the strategically located and energy-rich region. (*Ann Scott Tyson, F. William Engdahl, 2005*) According to most analysts, a key element of the Great Game is outside powers' security presence in the region -- whether military bases or joint war games with host countries or arms deliveries or control of energy transit routes. Geopolitically, security presence allows an outside power to exercise more control over a host country's policies and make sure the outside power's national interests are observed and promoted in the host country.

Economically, security presence allows an outside power to ensure that Central Asia's energy riches are exported in the direction the outside power wants; an outside power usually seeks to make sure such deliveries are safe and that other outsiders cannot easily reroute the region's energy flows. In military-strategic terms, security presence allows an outside power to project force from a host country to other countries in the region, including the outside power's rivals. The present-day outside powers do indeed seek to expand their security presence in Central Asia. A more critical glance would reveal, however, that the Great Game concept appears to ignore a number of important points.

First, Central Asian states have become independent actors which can make their own decisions. (*Ann Scott Tyson, F. William Engdahl 2005*) Second, the relations between the Central Asian states and the outside powers are not the hierarchical ones in the tradition of a great power-client relationship. The nature of these relations, rather depends more on how the regional countries perceive their political, economic and security interests. Sometimes the regional countries' interests might indeed include pitting great powers against one another, thereby creating an image of a great game.

Central Asia became important in the international world because of its energy resources. Europe is seeking to reduce its dependence on the Russian Federation for energy, with the support of the United States. China, India and much of the rest of East Asia are seeking to secure additional energy supplies, preferably not from the volatile Middle East. But Russia remains an important partner to all five Central Asian states, and still holds a monopolist or near-monopolist position in the export of Turkmen and Kazakh oil and gas reserves, given its control over the pipeline system that runs through its territory.

Weakening of Russia's positions in Central Asia occurred after the collapse of the USSR. However, because of the significant strengthening of state power and defense capability of Russia, increased its international authority and strengthening of its role in world affairs was outlined in the last five years. It has become one of the main actors once again in *the Game* during Putin's term in the office. He succeeded to sign new agreements with the leaders of Central Asian countries in security and economic issues. One of the most striking agreements is energy and pipeline agreement between Russia

and Turkmenistan, Kazakhstan and Uzbekistan. All these three countries agreed to sell oil and gas to Russia and a new gas pipeline between Turkmenistan, Kazakhstan and Russia will be built to be able to transfer the gas. The amount of gas supply would increase step by step in the future.

Since Soviet disintegration outside powers tried to build certain relationships with Central Asia countries and tried to influence in internal politics of these new states. And in 21st century competition among great powers over energy resources and its transport routes became more intensive, promoting rapid growth in energy prices and geopolitical considerations involving energy security. Central Eurasia (CEA), forming the heart of the Eurasian space, has been of particular interest to the great powers due to its vast energy resources and strategic location.

Geographically, Central Asia includes Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan, whereas the Central Eurasia consists of the five Central Asian countries plus the three South-Caucasus countries of Armenia, Azerbaijan and Georgia. The Central Eurasia states are located to the east and west of the oil and natural gas-rich Caspian Sea. Kazakhstan and Azerbaijan have the biggest oil-reserves and are the largest export countries, although Turkmenistan's oil and gas exports have been growing rapidly in recent years as well.

Central Eurasia is a region where the effects of geopolitics and great-power competition have perhaps been more clearly seen than elsewhere. Ethnic and religious conflicts, domestic political turmoil, energy competition among big oil and natural gas companies, and strategic positioning have been a recurrent feature of great-power competition in the region. This, in turn, has made Central Asia a pivot in the new world order, and especially so when seen in context of its rich energy reserves and the growing world energy demand. As stated in a report by the U.S. National Intelligence Council: "Growing demands for energy—especially by the rising powers—through 2020 will have substantial impacts on geopolitical relations." (*Report of the US NIC, 2004.*)

Major Powers have invested a lot of time, money, and effort together with diplomatic and military muscle to win control over major foreign stockpiles and transits of energy. In this context, major oil and gas-importers like the U.S., Europe, China, and India are paying close attention to the Central Asia region, particularly Kazakhstan,

Turkmenistan, Iran and Azerbaijan, whereas other regional powers like Russia are striving to retain influence over these strategic resources.

Geopolitically, the Central Asia region belongs to what Mackinder designated as the “heartland” and is the center of Zbigniew Brzezinski’s “black hole” of power, equating it to “the Eurasian Balkans” implying a major risk of ethnic conflicts and great-power regional rivalry. (*Zbigniew Brzezinski, 1997*) Great-power competition had big impact on Central Asia affairs politically, economically and militarily and it has been described in terms of a “New Great Game”.

All Central Asia states faced many problems in achieving domestic social stability and economic growth. This created a power-vacuum in the Central Asia region rising geopolitical disorder over the vast energy resources found in the post-Soviet states. National leaders are trying to gain control over major sources of oil and natural gas in Central Eurasia.

For centuries, Russia’s control of the Central Asia region has had long-term and profound geopolitical implications for other great powers. According to some experts, Moscow’s foreign policy towards these countries is not driven primarily by hopes of recapturing great oil wealth, but by geopolitical dominance.

- *“At the minimum, Russia has an interest in preventing these newly independent countries from falling under the dominance of any other regional power, for example, Turkey and Iran, or becoming a new frontier for the so-called hegemony of the United States. At the maximum, Russia would seek dominant influence over these countries’ domestic as well as foreign policies.Energy is a means, not an end.” (John Mitchell with Koji Morita, Norman Selley and Jonathan Stern, pp. 185-186.)*

Russia has carried out diplomatic, economic and military measures to counterbalance the U.S growing geopolitical role in Central Asia. One means to achieve this has been through the continuous strengthening of cooperation within the SCO. However, the United States and Turkey are not the only geostrategic rivals of Russia.

China

In 1954, the Chinese government claimed parts of Kazakhstan, Kyrgyzstan and Tajikistan as Chinese territory. China claimed that Russia had annexed these territories in the 1880s. (*Michael Freeberne, 1968*). Though Moscow and Beijing had started a dialogue to

resolve their border dispute in 1987, the collapse of the Soviet Union left the issue unsettled. After the collapse of the Soviet Union, China again raised this question.

The volatile situation in the Xinjiang province of China is an important determinant in China's Central Asia policy. The Uyghurs have been struggling for greater autonomy and independence for decades. Uyghurs living in Kazakhstan, Kyrgyzstan and Tajikistan have strong ties with the Uyghurs in the Xinjiang province of China. (Ramakant Dwivedi. 2006) After the collapse of the Soviet Union and the subsequent emergence of independent and sovereign states in the Central Asian region, Uyghurs living in and outside Xinjiang have visualized the possibility of an independent "East Turkistan." The struggle for independence has been going on since 1949 when the Muslim state of East Turkistan was incorporated into China.

Over the last 15 years, China has been able to develop close and friendly ties with the Central Asian Republics and overcome past uncertainties over border disputes, threats from terrorism, ethnic nationalism and religious extremism. China and Russia also have common interests regarding U.S. efforts to promote democratic transformation in Central Asia. Both want to contain U.S. influences in the region and address non-traditional threats to security and stability. The quest for energy security is also transforming China's engagement in Central Asia.

Therefore, participation in the energy development projects in the Central Asian Republics is an important part of China's energy strategy. Indeed, the Central Asian Republics provide a fertile ground for such cooperative projects. China has invested or pledged substantial amounts of money in joint ventures along with Central Asian oil and gas companies such as Petro-Kazakhstan, Turkmen Neftegas and Uzbek Neftegas. China is working on new gas and oil pipelines connecting the Central Asian Republics to its pipeline network in Xinjiang. China's interests in Central Asia have widened from stability at the borders to encompass energy security, geopolitics and combating extremists, terrorists, as well as "nationalist/ separatist" forces.

China and Kazakhstan signed a *Protocol on the Demarcation of the State Line* in Beijing on May 10, 2002 demarcating and delimiting the 1740 km long boundary between the two countries. Kyrgyzstan and China signed two Protocols in 1996 and 1999 to settle their boundary dispute. The Kyrgyz Republic ceded 30,000 of hectares territory

to China under the 1996 agreement and under the 1999 agreement, China got an additional 95,000 hectares of land. These helped to normalize and develop good relations between Bishkek and Beijing. (*Marat Saralinov,³⁷ 2006*) Tajikistan and China signed an agreement in May 2002. Under this agreement, Tajikistan ceded 1000 sq. km of territory to China in return for China's withdrawal of claims on 28,000 sq. km of Tajik territory. (*Reuters, 2002*)

China's energy security comprises the following elements: to diversify the sources of energy imports and increase the share of oil and gas imports from Russia and Central Asia; increase overseas investments by state oil companies; broaden ways of trade to avoid transactions risk; enhance the investments in oil and gas infrastructure and open more channels to imports; establish government controlled strategic petroleum reserves; adjust energy consumption and production structure and reduce dependence on oil through coal gasification; liquefaction and development of nuclear power; and actively participate in the formation of a regional community and establish a regional energy system. (*Stephen Blank, 2005*)

China is also involved in developing infrastructure facilities in the region: construction of a highway in Tajikistan, improve Uzbekistan's irrigation system. Chinese investments in the Kazakh energy sector are substantial. It is involved at all levels in this activity from exploration and construction of export pipelines to outright purchase of energy supplies. Another major area of Chinese activity is in the sphere of communications where China is involved in road construction and restoration.

China, whose economy is still in a drastic need of energy, takes active measures trying to penetrate the Central Asia fuel and energy sector, participate in redistribution of the regional raw-material markets and grasp a share. China regards the SCO as a reliable tool to strengthen regional security and build multilateral cooperation. The success of this organization is primarily confirmed by its participants' active effort and practical experience of struggle for influence in Central Asia with such a serious contender as the US. The key components of the Chinese economy, capable of activating the Central Asian region, are transportation of Chinese goods to Europe and export of Russian energy through the region. China's intensive activities in the region is dictated, among other

³⁷ Saralinov was one of the Members of the Border Dispute Negotiation Committee of the Kyrgyz Republic

things, by the need to strengthen collaboration in its struggle against Uyghur separatism, discouraging outside support to the separatist forces, aiming at creation of the so-called East Turkestan state in China and the neighboring CA states.

China is regarded as a potential strategic enemy as well. China does not try to influence the internal politics of the region, but its increasing geostrategic significance is also facing tougher geopolitical competition over Central Asia. Situation in Kazakhstan, Kyrgyzstan and Tajikistan is important for China's stability first of because of "Uigur question". Within Central Asian countries there are a large number of Uigurs who are very unfriendly towards China and are suspected of being part of various Uigur organizations that aim to create an independent Uigur state.

Besides, China's thirst for oil and natural gas to support its booming economic growth requires Beijing to develop close and stable relations with these countries, especially in terms of energy cooperation. China is increasingly competing with India, since both the rising great powers are struggling to ensure future supplies by either buying new foreign oil and gas fields or by signing supply contracts. Both Beijing and New Delhi know they have similar energy strategies, acknowledging that traditional approaches to attain energy security may not be a solution to a forthcoming energy shock or shortage of supply. In the Sino-Indian "strategic dialogue" held in Beijing in February 2006, both countries agreed to cooperate rather than compete for global energy resources.

The increasing economic and military potential of China, from one side, is an attractive dimension for cooperation, but from another side, it makes Central Asian countries alarmed. Chinese business that is very active in Central Asia is often considered not as a representative of a developing state, but as the arms of an ill-intentioned expansionist policy of Beijing.

Iran

Iran has vital interests in the maintenance of peace and stability within the region, but its international isolation and pariah status prevent direct action in support of its genuine security concerns. As a contiguous state with shared ethnic minorities, Iran has the most to lose if domestic instability should cause implosion of Central Asia, but it also has the least ability to shape events

Iran's options are limited in terms of its economic penetration and attempt to expand its cultural-ideological influence. Economic weakness holds it back from a major role in Central Asia. Iran has been striving for a dominant role in Central Asia through control of offshore oil and gas fields in the Caspian Sea, but disputes with Azerbaijan, an ally of the U.S., over the offshore fields have somewhat impeded full realization of Iran's strategy

Japan

Japan has never tried to influence on the Central Asian states, though it has also strong interests in Central Asia, because of lack of its own energy resources and heavy dependency on the West Asia.³⁸ It has just tried to improve its positions by means of financial-technical expertise and other forms of assistance as well as spreading Japanese culture and language within a number of Central Asian countries. Central Asia presents a viable necessary, practical and effective choice for Japan to ensure a stable and sufficient flow of oil and gas supplies.

Economically and politically Japan could reinforce its strategic objectives of balancing China's influence in the Asia Pacific. Tokyo held the first round of the "Central Asia Plus Japan" foreign ministers dialogue in Kazakhstan in August 2004 with all SCO members. On June 5, 2006, the second round of the dialogue was held in Tokyo, and the Japanese government announced that it would assist the Central Asian countries in building the so-called "southern route" inland traffic network for future transportation of natural resources, including the construction of a road in west Kazakhstan, the road rehabilitation between Bishkek and Osh in Kyrgyzstan, and the rehabilitation and modernization of airports in Kazakhstan, Kyrgyzstan, and Uzbekistan

Turkey

Turkey had long been separated with Central Asian peoples. After the dissolution of Soviet Union the new "Turkish Model" was presented to the Central Asian states.

³⁸ 87 percent of Japan's oil imports come from the West Asia, marking an urgent need for diversification of energy supplies.

Turkey has invested several billion dollars in Central Asia, mainly in culture, education, telecommunications, and transportation to draw Central Asia closer to it and to the West.

The important pillars of Turkish foreign policy in Central Asia are: 1) Turkey's model of development as a model for emulation; 2) the historical-cultural and ethno-linguistic solidarity; 3) religious identity and 4) A representative of the West. In the first stage Ankara tried to install the most important construction of its Central Asian strategy, i.e. "the Turkic-speaking train with the Turkish locomotive," by active propaganda and reference to all of the above, while establishing relations with regional countries, and supporting them with investment projects, even though some of the latter failed, and some appeared to be scandalous. Turkey targeted "Turkish groups of influence" in Central Asian countries. *(Muratbek Imanaliev, 2008)*

At the same time the idea of forming the "Turkic-speaking echelon" did not enjoy the support of all Turkish politicians and experts. Many of them think that the priority task for Turkey is to enter the European Union and "eventually become Europeans." From another side, the Russian influence in the region has been prevailing. The scale and level of Russia's influence was encouraged by another important factor - a Russian-Soviet imperial worldview, which were cultivated in and still partially represented by the thinking of the elites Central Asian countries. *(Muratbek Imanaliev, 2008)*

The ideas of Ankara were not welcomed by all in Central Asia either. The mutual disappointment came very soon; in addition, Turkey, bound by certain commitments to the West, needed to behave favorably to opponents of Central Asian presidents, and the latter perceived it as hostile or unfriendly.

The Turkish ideas, not supported by serious financial investments and sufficient trade-economic activities in Central Asia, or strategic and operative calculations, formulated incorrectly by Turkish politicians and diplomats, were not properly implemented. Central Asian countries negatively approached Turkey's drive to play the role of "elder brother." The failure of "Turkish engagement" disappointed Central Asian countries and the major political ally and sponsor of Turkey - the USA. Ankara lost the nebulous image of being a representative of the West and NATO in Central Asia. In the middle of the 90s Ankara re-formatted its Central Asian strategy: it has become more realistic, but it is still amorphous and ineffective.

Turkey's 'new policy' toward the CA region has three central features; 1. Balancing its relations in the region with the other great powers, Russia, Iran, China, India, and Pakistan (in other words try not to step on anybody's toes) 2. Work on policies that create stability and security in the region 3. Facilitate energy relations, especially regarding transportation routes. Turkey already plays a transit role in the BTC Caspian Sea pipeline and very much desires an increasing role in the Nabucco pipeline from Turkmenistan to Austria (*Patrick Frost, 2008*)

Europe wants Turkey to be a transit corridor along the Nabucco pipeline's 3,300-kilometer (2,062-mile) route from the Caspian Sea region to Austria. Turkey wants more control: acting as a regional energy hub, collecting gas from the east, buying some domestically at below-market prices and passing on the rest to Europe for a variable fee (*Celestine Bohlen, 2008*)

USA

U.S. strategists began to pay more attention to the Central Asia region, and the Clinton Administration showed particular interest in Central Asia's energy and economic potential. By the late 1990s, the Clinton administration had developed a policy that, regardless of an outspoken emphasis on the promotion of democracy, human rights, and beneficial economic development, primarily aimed to (1) contain Russia, (2) isolate Iran, (3) reward old and new allies (Turkey, Georgia, and Azerbaijan), (4) develop alternative energy sources to reduce reliance on sources in the Middle East, and (5) project US influence into what by then seemed to be a regional power vacuum. (*Dekmejian & Simonian,; Hooman Peimani, 2001*)

The current Bush government has also promoted massive and active involvement in Central Asia affairs both to restrict China's geopolitical rise and influence in the region while simultaneously coveting Russia's Central Asia "backyard". This was perhaps primarily seen in United States' support for the color revolutions that swept the region in the past few years, starting with the "Rose revolution" in Georgia in 2003, the "Orange revolution" in Ukraine in late 2004, and the "Tulip revolution" in Kyrgyzstan in early 2005.

After Andijan event in May 2005, because of massive condemnation from the U.S. and other Western powers, Uzbekistan demanded withdrawal of the US base from the Karshi-Khanabad which was used for Afghanistan operation. Soon after, a SCO statement was also delivered demanding the U.S. to set a deadline for withdrawal of its bases from Central Asia. In one year, Russia and China have managed to Eurasia away from U.S. strategic advantage, to the opposite, where the U.S. is increasingly isolated.”

(F William Engdahl, 2006)

Currently, the SCO members are pushing energy cooperation forward among themselves which will surely affect the U.S.’ geopolitical role in Central Asia. At the 2006 SCO summit in Shanghai, all member states agreed to give priority to cooperation in the fields of energy and to play an independent role in safeguarding stability and security in this region.

The US regularly confirms its interests in Central Asia. In the first place, it relates to oil and gas transportation channels. The US has its own vision of the region’s integration. The “Great Central Asia” concept implies inclusion of Afghanistan in the new alliance in addition to the main five states united by the common Soviet past: Kazakhstan, Uzbekistan, Turkmenistan, Kyrgyzstan, Tajikistan. The desire of the Americans, who are permanently threatened by the radical Islam, to stabilize the region at the expense of traditionally secular and market-orientated regimes, is quite justified, but has not yet found any serious application points. The US has grounds to criticize practically any state in Central Asia for violation of democratic principles, and does so at various intervals and with various intensity. The non-nuclear status of all Central Asian states, confirmed by a regional treaty, is of important political value for the US. However, despite its vast power and diplomatic authority, the US desire to exert direct influence on Central Asian states is opposed by the strengthening of the Shanghai Cooperation Organization, representing, in the first place, Russia and China’s interests in Central Asia. SCO’s intensive effort has resulted in the declaration of the need to withdraw US military contingents and infrastructure from SCO member-states upon completion of the active phase of the anti-terrorism campaign in Afghanistan.

American policy toward Central Asia and the South Caucasus became clearly defined as of 1997 under pressure from oil consortiums which demanded that it no longer

be subordinated to relations with Russia. Until then, US foreign policy had essentially supported Turkish initiatives, contained Iran, and acknowledged the Russian “*near-abroad*” policy as a barrier to Islamic activism. Growing interests of US oil companies in the region have led to more precise definition of US policy toward Central Asia combining market principles with political guidelines. (*Brigitte Vassort-Rousset, 2002*)

After the collapse of the Soviet Union in 1991, the United States recognized the independence of all the former Central Asian republics and established diplomatic relations with each by mid-March 1992. The United States also supported their admission to the OSCE and other Western organizations, and elicited Turkish support in countering Iranian influence in the region. The Clinton Administration emphasized closer US relations with the Central Asian states. US policy goals have included fostering stability, democratization, free market economies, free trade and transport throughout the Eurasian corridor, de-nuclearization in the non-Russian states, and adherence to international human rights standards.

US interests in Kazakhstan included promoting the removal of strategic nuclear weapons located on its territory and the security of other nuclear materials. The United States pursued economic and business interests in Central Asia, particularly as related to oil and natural gas development in Kazakhstan, Turkmenistan, and Uzbekistan. The United States initially forged expanded ties with Kyrgyzstan because it appeared committed to democratization. The Clinton Administration was concerned about human rights and civil liberties problems in all the states. In Tajikistan, US humanitarian aid focused on alleviating the effects of civil war and on other urgent needs.

In effect, the ability of the states in Central Asia to be effectively sovereign today, to meet the welfare needs of one’s population and to promote economic growth will depend crucially on getting into a healthy relationship with international business. The activities of the USA in Central Asia have advantages, accomplishments, mistakes and shortcomings in terms of multilateral and bilateral relations with countries of the region.³⁹

³⁹ The most important achievement of the Americans is the formal (official) recognition by Russia of the justified interests of Washington in Central Asia. It has formally expanded the frames of foreign policy for Central Asian states, which despite the existing and recently increased anti-Americanism, always try to move towards Americans.

The Central Asian space seems to be the "end point" of American international politics in Eurasian (post-Soviet), Islamic, and recently the South Asian strategies of Washington. The vectors of strategies are different, but the goal is similar.

Washington needs to be involved in the region to maintain a security balance, ensure the safe flow of oil, and undermine activities such as terrorism and drug trade that threaten its declared vital interests. But Washington has not scored any major achievements in the region. By virtue of its global standing as the sole remaining superpower, and by declaring the region an area of vital interests, the U.S. is a crucial component of the Caspian-Asian security calculus. However, Washington's policy displays no coherent strategy towards the region, and policy seems to be mostly based on short-term, ad hoc decisions, being tactical rather than strategic in nature.

Washington has certainly helped prevent a return of Russian hegemony especially in the Caucasus by strengthening local states; but uncertainty regarding America's commitment to and policies in the region has allowed an extensive array of interpretations on the part of regional powers. Washington remains principally undecided on how far it wishes to confront Russia in the region. The U.S. has remained on the sidelines of the Afghanistan conflict during the entire 1990s. In particular, the U.S. policy toward the Taliban rise to power was vague: allegations of initial U.S. support for the Taliban contain strong circumstantial evidence. Washington's recent anti-Taliban shift is defined by a single issue: Osama Bin Laden, whereas a larger regional picture is absent. With regard to Pakistan, a long-time ally of the U.S., Washington's stance is ambiguous. There has been a tendency toward a rapprochement with India at Pakistan's expense; indeed, despite the fact that the Indian nuclear explosions of 1998 preceded and actually caused the Pakistani ones, U.S. sanctions on South Asia have affected Pakistan disproportionately. The lack of a clearly formulated U.S. policy grounded in a long-term strategy towards the region has contributed to rather than lessened instability. Whereas the U.S. claims to engage this crucial region of the world, it does so in a less than predictable and coherent manner. The lack of clear American engagement, and U.S. deference to Moscow, compelled the primary regional power in Central Asia, Uzbekistan, to forge new security relations with Beijing and Moscow.

European Union

The European Union regards Central Asia as a potential cover for protecting Europe against Islamic extremism, drugs traffic and illegal migration. The EU is extremely interested in reliability, stability and transparency of the energy flow from Russia and Central Asia. In fact, 75 percent of EU imports from Kazakhstan are taken by Russian pipelines. (*Zeyno Baran,⁴⁰ 2007*) Western European countries, through the European Union, OSCE were actively influencing and encouraging the process of democratization of internal political life in Central Asia, often linking financial-economic assistance to this goal. Europeans helped to form civil society in Central Asian states through humanitarian and legal assistance, which could adopt European values and principles. However, the question of economic cooperation, first of all in the energy sector, has always been included in the agenda of Central Asian policy of European states.

The EU is facing a strategic challenge in its external policies. The rise of Russia, China, India and Iran as international actors is creating a serious threat to the EU's ambition to apply external policies that reflect European values. Central Asia has recently emerged as an important focus for the EU for various reasons: obtain access to energy resources, foster democratization and promote human rights in the region.

After the attacks against the United States of 11 September 2001, Central Asia became important for the international community. Placed strategically close to the theatre of operations for the US-led military coalition in Afghanistan, the region acquired the presence of western military facilities such as the US airbases establishing in Uzbekistan and Kyrgyzstan, the German presence in Uzbekistan and the French support operation in Tajikistan.

The western military presence in Central Asia quickly became a source of concern in Russia and China. Beijing has promoted the consolidation of the Shanghai Cooperation Organization (SCO) as a means to resist western interference in the region. And Russia has also sought to strengthen its security profile in the region through measures to strengthen the Collective Security Treaty Organization (CSTO) as a military counterweight to expanding western influence, including NATO.

⁴⁰ Zeyno Baran is Director of the Center for Eurasian Policy at the Hudson Institute

The European Union also began to pay much closer attention to Central Asia. The particular focus for the new interest in the region was the security sector and especially the issue of borders. The EU subsequently made available large-scale aid through the Border Management Programme in Central Asia (BOMCA). This initiative also helped to strengthen the EU's Central Asian Drug Assistance Programme (CADAP), which had been launched in the late 1990s but had found it hard to have a significant impact on the ground.

According to Regional Strategy Paper for Central Asia 2007-2013, the EU's strategic objectives are:

- To ensure the stability and the security of the countries of the region;
- To help eradicate poverty and increase living standards in the context of the Millennium Development Goals;
- To facilitate/promote closer regional cooperation both within Central Asia and between Central Asia and the EU, particularly in the energy, transport, higher education and environmental sectors. *(European Community Regional Strategy Paper for Assistance to Central Asia for the period 2007-201)*

The EU wants stable and democratic regimes with market economies in Central Asia that are guided by Western values and standards. The European structures use various instruments ranging from the TACIS and TEMPUS programs of technical assistance for promote structural and institutional reforms in the economic and legislation spheres, in state administration and education, to the TRACECA and INOGATE programs of transportation infrastructure modernization and political support of the human rights organizations.

Energy is the central issue of the EU's economic interests in the Central Asian countries. The EU, as one of the largest energy consumers, needs to keep its economy going, which increases its dependence on energy resources. Each domestic or foreign policy crisis endangers the delivery of energy resources to the EU. Europe's stronger position in Central Asia could balance American and Russian political influence in the region and promote closer economic relations. The EU is one of the largest customers of the Central Asian countries outside the CIS, while unified energy systems will guarantee energy exporters a stable market in the mid-term perspective. The EU leaders are

working toward diversifying its energy sources to avoid dependence on any region or group of countries. The Single Energy Policy program planned extends cooperation among the EU members to the energy sphere.

The foreign policies of Central Asian countries are influenced by the diversity of the domestic and external factors. Currently, Central Asia's leaders have three primary concerns: remain in power at their countries while blocking attempts opposition group which want destroy their regimes; continue policy against radical Islamist activity; make economic development in such a way that will not undermine their control over their own economies.

The West and the United States wish to effect political change in the region. They also want the local economies to be liberalized. Russia, on the other hand, is doing the opposite, and has therefore won regional governments' appreciation. (*Svante E. Cornell, 2004, RIA Novosti, 2006*) The West is calling for democratic reforms in the region, Moscow hasn't shown any intention to interfere in Central Asia's internal politics and is not demanding improvements in human rights or the implementation of political pluralism. This difference makes the choice between the two potential sponsors easier for Central Asia's governments. Russian strategists claim that American policy aimed at spreading democracy in Central Asia failed because Washington was slow to understand that democratization which comes before modernization in the poor underdeveloped countries cannot be sustained. (*Joel Brinkley, 2005*)

The US has no interest and intention in helping regional governments defend themselves from the challenges of domestic opposition. And the U.S. response to the Andijan events in May 2005 was an important factor in pushing the region's leaders closer towards Moscow. Washington's reaction made it clear to Central Asia's regimes that they should not rely on the US for security assistance in case of any internal and outside threats. (*Sonni Efron, 2005*) Governments of Central Asia region believe that the United States is supporting anti-government movements and can use it to remove existing regimes.

While the West reacted to Andijan events by criticizing the Uzbek government, Moscow supported the regime, and made it clear that it would help Central Asian governments to fight the Islamist opposition. (*Mikhail Margelov, 2005.*) This policy was

formalized in the July 2005 summit of the Shanghai Cooperation Organization (SCO), and the Kremlin also has made this commitment through the Collective Security Treaty Organization. (*Viktoria Panfilova, 2005, Yevgenii Verlin, 2005.*)

Moscow participated in the joint counterterrorism exercises in both Kazakhstan and Uzbekistan and increased military cooperation. (*Jane's Intelligence Review, 2006.*) The differences between Washington and Moscow's positions were quite clear to the regional leaders. For Russia, this cooperation is important because it means reducing the U.S. influence in the region. Moscow seeks to prevent destabilizations in Central Asia: any significant undesirable political crisis in the region would make Russia's borders vulnerable. Russia and Kazakhstan share a very long border, and Central Asian security is therefore of vital interest to Russia.

In terms of economic cooperation Central Asian governments also view economic aid from the West in general and the United States in particular quite skeptically and with suspicion. Central Asian officials complain that Western aid never lives up to the expectations and Western consultants are quite expensive. Furthermore, the aid often comes with significant demands for political and economic reforms that the local authority perceives as risks that could undermine regional governments. An economic benefit from the presence of U.S. military bases is less than expected.

On the other hand, trade with Russia and China remains a vital element of economic development for all the Central Asian states. Moscow also views strong economic ties between Russia and Central Asia as very important. Gazprom is increasingly turning its gaze to Central Asia's gas resources. Russia has already signed a contract with Turkmenistan and got the exclusive right to export all natural gas produced in Turkmenistan for a period of 25 years. But Turkmenistan is an unpredictable partner. It gives the same promises to Russia and West in one time, which forces Moscow to look for a back up plan.

In January 2006, Gazprom signed two agreements with Uzbekistan pledging \$1.5 billion in Russian investments in the Uzbek energy sector. The most important success is a 25-year production sharing agreement on the development of the Ustyurt gas fields. Any investments Gazprom makes in the region can increase the company's influence and make the local authorities more loyal. The Ustyurt gas reserves can help Gazprom to at

least partially protect its interests and keep its gas balance in case Turkmenistan reduces production and turned to the West. The deal is also good for Tashkent. Uzbekistan just has no money for the exploration and development of its energy reserves and, more importantly, for the expansion of the transportation capacity of the Central Asia by modernizing Center pipeline's Uzbek section to secure the export. (*Yelena Mazneva, 2006.*)

Russia also managed to sign another energy agreement that has potentially huge economic and political implications. In the end of 2005, Gazprom reached a five-year transit deal with Kazakhstan's state natural gas transit company KazMunaiGas to transit 55 billion cubic meters of Turkmen and Uzbek natural gas a year, giving Gazprom monopoly control over all three Central Asian states' natural gas exports. (*Nataliya Grib & Oleg Gavrish, 2005*) Playing a leading role in Central Asia, Russia would not only dominate the export of Central Asian gas but would also obtain control over the economies of both the gas-producing and gas-consuming states in the post-Soviet Eurasia. (*Stephen Blank, 2005*) This can have significant repercussions for other major consumers – like, for example, the European Union. Any state wanting to use Central Asian gas in order to get energy independence from Russia would find it difficult to do so. (*Stratfor, 2005.*)

In military-strategic terms, in 2002-2004, Moscow's attempts to counterbalance the U.S. military presence were doomed to failure. The U.S. and NATO's after September 11, 2001 had dominant position in the region. But 2005 has seen an impressive reassertion of Russian military influence in Central Asia. (*Richard Giragosian, 2006.*) Uzbekistan strongly resisted attempts to use the "alliance" for promoting liberal reforms and human rights. Karimov immediately revived the "strategic partnership" with Moscow and received a red-carpet welcome in Beijing. The U.S. airbase at Karshi-Khanabad has been withdrawn (*Alex Rodriguez, 2005.*) Russia and Uzbekistan signed the military pact in November 2005. (*Igor Torbakov, 2005*)

Thus, while Moscow's strategic clout has grown recently, the capacity of the West and the US to influence political developments in the region has significantly diminished. However, the overall situation in Central Asia remains highly volatile and the present-day geopolitical landscape is far from being permanent.

Chapter 5.

Conclusion

To sum up, during most of the post-Soviet period, Russia's policy in Central Asia has been unsystematic, and it has evolved spontaneously, largely by trial and error. In the early 1990s the Yeltsin administration's foreign policy was based on the rather forlorn hope that Russia could be integrated into the Euro-Atlantic community. Central Asia was largely irrelevant to this ambition. In the later 1990s, when Russia's attempts to join the West had become a fiasco, there was a lot of re-thinking of Russian foreign policy, and the Kremlin began to pay more attention to its eastern flank, including Central Asia.

When a new generation of politicians came to power in Russia, Russian foreign policy became more pragmatic and focused on the restoration of the country's former status as one of the world centers of power. Moscow decided that to achieve this it must consolidate the CIS, and especially its energy resources, under the aegis of Russia. In this context it is easy to see why Central Asia acquired more significance in Russian foreign policy. On the whole, however, the Central Asian dimension was and remains a secondary matter in the Kremlin's list of strategic priorities. Moscow has still not understood that Central Asia is important not only for raising Russia's status in the world, but even more importantly for the effective and comprehensive economic development of Russia itself. More than anything, this is about maintaining and advancing its abilities in industrial innovation in a globalised economy. The most glaring evidence of this is the fact that notwithstanding the observable process of political rapprochement between Russia and the countries of the region, the international EURASEC organization still has not achieved its main aim: the creation of a fully-developed economic community.

Russia's increased political activity in the region, however, unsupported by adequate development of economic cooperation, is unlikely to guarantee that the process of rapprochement between Russia and Central Asia, observable today, cannot be reversed. Furthermore, if economic links stay at the present low level, the Central Asian countries are bound to want to develop links with global centers of economic power other than Russia. The rich mineral resources of the region will sooner or later be a magnet for much fiercer competition between strong powers and economic groupings than there has

been so far. It is not a foregone conclusion that Russia, with its raw-material based export economy and its weakened industrial and technological position, would win this competition.

It seems that Russia's glaring underestimation of the strategic importance of Central Asia is largely due to poor analysis of the situation and lack of specialist knowledge of the area which have taken root in Russia because of ideas that the region is some kind of "economic burden" that it would be better not to take on. But the most important point is missed here: the figures for "unprofitability" and "need for subsidies" of the Central Asian republics were artificial even in Soviet times, due to the inefficient economic policy and the way economic activity was organized.

Nonetheless, the thinking of the Russian ruling elite and even academic circles, and of Russian society as a whole, is dominated by the idea that Central Asia is useless from the economic point of view. But this region could be highly profitable for Russian business, bearing in mind the availability in the area of all kinds of industrial raw materials, and even more importantly, the production conditions, which are more favorable than in Russia: cheaper labor, lower construction costs, manufacturing capacity to be exploited, as well as an existing transportation and energy infrastructure.

So the future of relations between Russia and Central Asia depends mainly on Russia. In the post-Soviet space only Russia, with its economic and geopolitical strength, could take on the role of being the locomotive of development of the Central Asian countries. What is more, Russia can only be secure in Central Asia if it is as active in developing the region's economic, scientific and technical progress in the 21st century as it was from the later 19th century until the collapse of the Soviet Union. The more this is recognized the more we shall be able to talk of a fundamental change in Russian foreign policy and its policy towards Central Asia in particular.

The Russian government is currently more concerned than any other external actor about developments in Central Asia. A major objective is securing Russia's vulnerable southern borders against such threats as Islamic extremism and drug trafficking. Moscow's economic goals include ensuring that its firms participate in developing the region's natural resources and that Central Asian oil and gas exporters continue to use Russian pipelines.

Although Russia's diminished economic and military resources make it unlikely that it will soon recover the hegemonic status Moscow enjoyed in Central Asia during the Soviet era, Russia employs a variety of instruments to promote its regional objectives and remains the most important external actor on many issues.

One clear Russian advantage is geography. Central Asia's landlocked states continue to rely heavily on transportation, communications, supply-chain, and other networks that either traverse Russia or fall under Russian control. Russia has invested heavily in various energy production and transportation projects in Central Asia. Russia remains Central Asia's leading trade partner. Russia's comparatively higher standard of living pulls millions of mostly illegal migrants from Central Asia into the Russian labor market, especially in the booming construction industry. Also the Russian government continues to increase its defense activities in Central Asia

The foreign policies of Central Asian countries are influenced by the diversity of the domestic and external factors. But the Russian factor, in our view, is of primary importance. Russia has played a dominant role in determining the historical development of the peoples of Central Asia. Those citizens of the Central Asian countries who possess good historical sense and are free from nationalistic prejudices are well aware of Russia's positive role in developing the region. The Soviet epoch was really a sort of Renaissance for Central Asia in terms of public health services, culture, education and science. The Central Asians and the Russians maintain warm relations with each other; these sentiments are rooted in a common history and passed on to successive generations. It is because of Russia that the world has learnt about those Central Asian cultures which have retained their unique national features. There is still a strong desire for studying the Russian language and culture, whereas the attitude toward Western culture is more than reserved. Moscow continues to be a center of cultural attraction for the peoples of Central Asia. The processes of political and democratic transformations that are underway within Russia and the Central Asian nations are essentially the same.

The economic structures of Russia and Central Asia are interrelated and complement each other. If Russia's GDP doubles, as was expressed by former President Vladimir Putin, Russia will emerge as a locomotive for the Central Asian economies. The

West and the US will never play such a role for Central Asia region. It needs the regions raw materials rather than products, whereas the Russian market is open to the Central Asian region to a much greater extent.

There is growing evidence of rapprochement between the Central Asian countries and Russia, which has been confirmed by the Collective Security Treaty Organization, the Shanghai Cooperation Organization, and many other intergovernmental treaties and agreements. It is my firm belief that this tendency for rapprochement with Russia will intensify.

The relations between Central Asia and Russia will never break. Rulers, leaders and governments come and go, but the geography and the peoples who keep age-old values and traditions remains. It was not by chance that Russia came to Central Asia a long time ago. The road of their common historic development has not been trouble-free, but at this new turn Central Asia is sure to establish very special relations with Russia. The Central Asian countries simply will have no future if they do not cooperate closely with their old neighbor. Russia should also make moves to develop stronger cooperation. Mutual efforts can give the maximum effect.

Russia and the Central Asian country's relations would also depend largely on the policies pursued by China and the United States. China remains good neighbor and seeks cooperation in all fields. China's present policy shows no aggressive tendencies or annexation plans.

China is not concerned very much about Russia's growing influence in the region; Beijing is well aware that Russia's presence in Central Asia is natural for historic reasons. However, the situation with the U.S. is quite the opposite – it considers Central Asia to be part of its strategic interests. The U.S. politicians have been displaying increased attention to Central Asia in the context of new threats associated with international terrorism, drug trafficking, religious extremism and other global challenges as were as due to the energy resources available in the region.

Many analysts believe that the US and West are pursuing policies to keep Russia out of the region. But the US is not interested to take responsibility for security in Central Asia. It acting only for its own interest.

In any case, Russia's role in Central Asia will continue to grow in the future. Therefore, any plans for driving Russia out of the region are destined to fail. For the foreseeable future, the Russian Federation will remain the dominant actor in Central Asia. The Central Asian leaders, fearful of the possible spread of religious radicalism and concerned at the potential fragmentation of their states from regional and sub-ethnic groupings, are eager to remain under a loose Russian security umbrella. They are also keen to continue to benefit from economic support from Russia and from other states interested in the region, such as Turkey, Iran, Pakistan, Israel, the US and members of the European Union. These states share a common concern to preserve stability in Central Asia

Given the increased competition in the region involving Eurasian, western as well as Asian powers, the importance of Central Asia is set to grow. Perhaps more than any other region of the world, Central Asia has become an avenue of the much-mentioned condition of multipolarity in world affairs. Central Asia is being increasingly linked to the security issues of its southern and eastern neighbours. Rather than the US, Europe and even Turkey, Iran, Russia and the West, the region is coming to be dominated by a more Asian constellation of power where Russia, China, Iran and India play important roles.

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