Russia, Central Asia and the Politics of Energy Policy

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The Caucasus and Central Asian countries are highly interdependent with respect to energy resources, transportation infrastructure and markets. The greatest source of wealth in the region is natural resources, particularly gas and oil. The region’s major rich oil and gas reserves are located in Azerbaijan, Kazakhstan, Turkmenistan, and Uzbekistan. Much of the oil wealth is located on the Caspian Sea littoral or in remote western Kazakhstan. The potential for increasing oil and gas production in the region is great. In Kazakhstan alone oil production is anticipated to double within the next decade. But because all the region’s oil-producing countries are landlocked, routes to the market invariably involve shipment through third party countries. As a consequence, the complexities of the region’s geography and the differing national interests of the countries make access to markets a matter of mutual agreement. This paper analyzes the political relationships among the countries of the region with a particular emphasis on energy resources.

The Caspian Basin region has drawn an increasing amount of attention in international affairs due to the rising demand for energy resources, the complications of energy export, the political instabilities of the Middle East region, and the political alignment of the countries of the Caspian Basin that were previously part of the Soviet Union. The countries of the Caucasus (Armenia, Azerbaijan, and Georgia) may be considered as playing a role in the Caspian basin because, although neither Armenia nor Georgia border on the Caspian Sea, both have importance vis-à-vis energy transportation routes. The Central Asian countries of Kazakhstan and Turkmenistan both border on the Caspian
Uzbekistan does not border the Caspian Sea, but given its significant role in gas and oil production, it may be included as among the Caspian Basin countries. Neither Kyrgyzstan nor Tajikistan has a border on the Caspian Sea. But these Central Asian countries play a role in the energy relations of the Caspian region, particularly with respect to the nexus between water and energy issues. Iran and Russia both have borders on the Caspian Sea and play significant roles in the energy industry as well. The major oil and gas exporters in the region are Azerbaijan, Iran, Kazakhstan, Russia and Turkmenistan. Azerbaijan and Kazakhstan are both rapidly developing countries seeking new export routes and diplomatic liaison to make these routes possible.

During the Soviet period gas and oil shipment facilities, pipelines and pumping stations, were routed the Russian Republic. After the disintegration of the USSR, the newly independent countries sought to develop alternative routes of shipment to reduce the likelihood of monopoly pricing. In 1997 Turkmenistan and Iran completed the Korpezhe-Kurt Kui pipeline, the first natural gas export pipeline from Central Asia to bypass Russia.\(^1\) The largest pipeline was the Baku-Tbilisi Ceyhan (BTC) oil pipeline. Originally begun as a project in 1998, this 1,776-kilometer pipeline from Baku, Azerbaijan via Georgia to the Turkish Mediterranean port of Ceyhan began functioning in May 2006.\(^2\) Paralleling the BTC for part of the route is the 692-kilometer Baku-Tbilisi-Erzurum (BTE), a gas pipeline which connects the Azerbaijan gas facilities to the Turkish infrastructure near Erzurum, Turkey. In Kazakhstan, the construction of 988-kilometer pipeline from Atasu to Alatau was completed in Kazakhstan in December 2005. This is the first stage in a planned Kazakhstan-China pipeline network that is anticipated to eventually reach 3,000 kilometers from its start in Atyrau, Kazakhstan to Alashankou in China. A number of other energy transport projects are in planning stages. One route foresees the shipment of Turkmenistan gas

\(^1\) Maps and descriptions of these pipelines are available at the website of the U.S. Department of Energy. See [http://www.eia.doe.gov/emeu/cabs/index.html](http://www.eia.doe.gov/emeu/cabs/index.html)

through Central Asia to China. Another route anticipates the shipment of Turkmenistan gas to Pakistan via Afghanistan.

When the Soviet Union collapsed Russia had a particular and well set general strategy toward Central Asia. But Russia’s strategy toward Central Asian countries has adapted to new commercial and diplomatic conditions as these have changed over the past decade. Russia’s new initiatives for the countries of the Caucasus and Central Asia, have put high priority on gaining influence or recapturing the control over the physical infrastructure of energy production and distribution. Russia has a comparative advantage in energy and power, with highly skilled technical specialists and advanced technologies in drilling and transporting. But Russia has been hampered by the weakness of the banking sector. For this reason Russian government officials and commercial interests have put particular emphasis on developing influence within the banking sector for direct control over the fuel and power sectors. The Russian government is experimenting with new financial mechanisms and strategies to complement its technical strengths in the energy and power sector. For instance, the Russian government is offering to take direct equity in power and transportation enterprises, to offer guaranteed loans and credits and to exchange sovereign debt for equity in enterprises. The Russian government is creating new preferred arrangements for Russian state controlled banks and lending institutions. The Russian government has taken steps to assume managerial responsibilities in natural monopolies, including those of the oil, gas and power sectors. The purpose of this paper is to analyze and assess Russia’s energy policies with respect to changes in Central Asia, putting particular emphasis on the leading and most important initiative in that strategy, the Eurasian Economic Community.

**Russia’s Strategy in the Region**

Recent changes in Russia’s role in Central Asia are largely a result of the policy changes that are being carried out under the auspices of the Eurasian Economic Community, the economic cooperation organization known by its Russian acronym, Eurasec. The Eurasec mechanisms were fashioned out of the lessons gained from trial and error
of nearly a decade of CIS arrangements. CIS agreements initially were
designed to coordinate monetary, customs, employment, tax, and
investment policies on a region-wide basis. The CIS arrangements were
designed to foster a free trade area, reduce internal tariffs, create
common external tariffs, and establish a system for payments and
settlements. However, CIS arrangements were not successful at
achieving these goals. The Soviet-era diplomats who negotiated the
demise of the USSR and replaced it with the CIS simply reasoned that
cooperation would be the natural state of affairs in the post-Soviet realm.
Thus they did not design the CIS as an organization capable of
regimenting its members. The December 1991 Alma-Ata Declaration
that created the CIS openly announced that the new formation was
“neither a treaty nor an international organization.” In fact the CIS
agreement was little more than statement of intention that the parties
would act in self-interested ways to promote trade and common security.

At the foundation of the CIS was the assumption that common
interests can be expected to lead by themselves to cooperative action. Of
course, this would appear to be a reasonable assumption. Inter-state
cooporation has great potential gains for all parties. The failure to
cooperate has clear costs fall all parties. Thus rational parties would see
the wisdom of cooperation and act cooperatively. Temporary episodes
of irrationality would lose out to the common recognition of the benefits
of cooperation. Moreover, there were empirical reasons to make the
assumption of cooperation as being natural. Even as the USSR was
moving into the final stages of disintegration, processes in most other
regions of the world appeared to be going in the direction of greater
integration. In the late 1980s the European community was entering a
period of increasing integration of markets, policies, and practices. By

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3 What they were trying to achieve is policy complementarity. Policy complementarity
may be defined as the parallel, mutually reinforcing operation of the physical
infrastructure in coordinated fashion with the soft infrastructure of government. “Soft
infrastructure” refers to the constitutionally established law and legislation as well as
government established implementing decrees, resolutions, instructions, and rules, which
regulate or seek to regulate the behavior of both state and non-state actors.

4 Gregory Gleason, “The Federal Formula and the Collapse of the USSR.” Publius: The
1995 the European Community officially changed its name to the European Union, underscoring the success of integrative trends. The logic of globalization everywhere seemed to be the logic of integration. Looking around and reflecting on their own experience, the framers of the CIS could reasonably assume that the Soviet republics, once independent, would recognize the importance of their common interests and would be drawn back into voluntary cooperation. They would then work together to establish the soft infrastructure that is so necessary for normal commerce. Coordinated policies and practices for transportation, trade, communication, and energy would be generated out of self-interest. The states would find ways to equitably dividing the costs and benefits of inter-state cooperation.

What the framers of the CIS failed to comprehend is that the assumption of the naturalness of cooperation is unfounded. The logic of globalization may well be one of integration, but this is not a natural outcome of the interplay of self-interested parties. It is the product of a complex calculus of interests and the result of strong institutions reflecting those interests. The natural tendency for countries in the circumstances of the collapsing Soviet Union is to fly apart, not to hang together. States do not sacrifice in the short-term for the greater good in the long-term because, for one thing, leaders cannot be assured that they will survive for the long-term. Only one thing would have overcome the centrifugal forces of the Soviet collapse in the early period: some strong “center-seeking” or centripetal force. In the history of international relations, a centripetal force usually comes in the form of some dominant regional power that takes upon itself the burden of establishing the ground rules for inter-state cooperation and somehow cajoling or

5 At the risk of pushing a physical metaphor too far, the dynamics of international relations may resemble those of physical objects. Newton’s first law of motion holds that an entity will stay in motion unless acted upon. Entities once in motion will move off in the direction of their initial trajectory. A centripetal force, that is a “center-seeking” force, is necessary to keep bodies in orbit. Centrifugal force, that is the “center-avoiding” tendency, strictly speaking, does not exist in Newton’s laws. There is no reason for it. Nor should it be a necessary assumption of the tendencies in international relations. Politics is not physics, but the metaphor does suggest skepticism in evaluating rationally-motivated inter-state cooperation.
coercing cooperation among the other states. The only candidate for assuming such a leading role in the former Soviet space was Russia. But because of the legacy of Russia’s heavy handed control and because of fears of renewed Russian Great Power chauvinism, there was a universal rejection throughout the borderland republics of the idea that Russia would assume an “elder brother” role within the CIS.

All of the countries of the CIS identified a market economy as their goal, but they moved toward this goal at different rates and relied upon different measures, creating market competition and political animosity. Opportunities to cooperate for the greater good in the long term which required short-term concessions or sacrifices by any of the parties were continually overcome by narrow term, self-serving behavior. When the failure of cooperation became apparent, the diplomats returned to the negotiating table. The long list of repeated initiatives during the first decade of the post-Soviet experience reveals both the extent to which cooperation was pursued and the extent to which it was unattainable: the CIS itself; the CIS Collective Security Treaty; the Central Asian Union; the Black Sea Forum; the 4 Power Customs Union; the Belarus-Russian Union; the Minsk Group; the Caucasus Four; the Caspian Five; the Shanghai Five; the Conference on Confidence Building, the Collective Security Treaty Organization, and the Central Asian Cooperation Organization. By the latter part of the 1990s, many CIS policy makers looking at trends in the Caucasus and Central Asia realized that they needed a new framework for cooperation. The idea that they eventually adopted was one that Kazakhstan’s Nursultan Nazarbayev first proposed in 1994.

The idea of establishing a Eurasian community was first proposed as a solution to inter-state coordination by Nursultan Nazarbayev in a speech at Moscow State University in 1994. Nazarbayev’s idea was not greeted with enthusiasm from Russian

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officials in 1994. Consequently, Nazarbayev simply began working unilaterally on the foundation of such a Eurasian community. In 1996 Nazarbayev oversaw the formation of an Integration Committee, headquartered in Almaty, Kazakhstan.\(^8\) The Committee went to work drawing up plans for policy harmonization. The Integration Committee developed a framework to coordinate four key arenas: financial markets; services; commodities; and labor. The goal was to establish a common set of policies and standards for coordinating customs and tariffs, visas, payments and settlements, investment, and labor, educational and health regulations.

The Integration Committee eventually produced the plan for the Evrazhskoe Ekonomicshesko Soobshchestvo. The idea was to create a Eurasian version of successful integration efforts such as the European Union in Europe, the North American Trade Agreement (NAFTA) in the Americas, and Mercosur in the southern cone of South America. The Eurasec mechanisms were fashioned out of the lessons gained from trial and error of nearly a decade of the CIS arrangements. CIS agreements had been intended to coordinate monetary, customs, employment, tax, and investment policies on a region-wide basis. The CIS arrangements were designed to foster a free trade area, reduce internal tariffs, create common external tariffs, and establish a system for payments and settlements. To the extent that the CIS was unsuccessful in achieving any of these goals, the Eurasec was oriented toward finding new approaches.

A treaty signed in Astana Kazakhstan in October 2000 by Belarus, Kazakhstan, Kyrgyzstan, Russia, and Tajikistan established the Eurasec as a formal international organization.

The Eurasec treaty emerged from the work of the Integration Committee. In October 2000, the presidents of Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan signed the Eurasec foundation treaty at a meeting in Astana. In the following months the national parliaments ratified the treaty and the governments agreed upon a package of 18 supplemental implementing documents. The presidents of the Eurasec

\(^8\) Interview with Nigmatzhan Issingarin, Acting Secretary General of the Eurasian Economic Community, Almaty, Kazakhstan, June 3, 2001.
member states, meeting in Minsk on May 31, 2001, voted to elect Nursultan Nazarbayev as head of coordinating organization, the Eurasec State Council. After ratification by republic legislatures, the Eurasec was brought into being in June 2001 as a formal organization. Permanent offices of the organization were established in Moscow and Almaty in 2002.

The Eurasec arrangement differs from the earlier CIS customs union in the respect that it is designed to function as a regional international organization, not merely as an inter-state agreement. The Eurasec has applied to be recognized as a regional international organization by the United Nations. While the Eurasec is not intended to limit the sovereignty of its member states, it does provide for the delegation to the Eurasec of some negotiating responsibilities within other international organizations such as the WTO. The Eurasec is managed through a State Council, an Integration Committee, an Inter-Parliamentary Assembly, and an Eurasec Court.

The Eurasec also differs from the customs union in the respect that it will have greater enforcement powers than the current customs union. A member state that refuses to abide by the Eurasec rules can be excluded from the union (which was not the case with the CIS customs union). The Eurasec arrangements include a weighted voting and financing scheme. Russia exercises forty percent of the voting rights and is responsible for meeting forty percent of the organization’s operating expenses. Belarus and Kazakhstan each have twenty percent of the shares. Kyrgyzstan and Tajikistan each have ten percent. The Eurasec Charter specifies that votes on major policy issues require two-thirds agreement. The voting formula would thus imply that, on any given major policy issue, Russia would need to have at least two other states supporting it to win a vote. On the other hand, this also implies that Russia alone exercises veto power on major policy issues.

The Eurasec was initially designed to serve as a forum for exchange, dialogue, inter-agency coordination, and policy-harmonizing for the entire post-Soviet space.9 But the evolution of the organization since its inception suggests that its scope and purposes have expanded as

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9 The organization maintains a website. www.Eurasec.org
well. Three particular aspects of the Eurasec merit attention. First, the geographical focus of the Eurasec has been most visible in relation to the countries of the Caucasus and Central Asia. Second, the functional charge of the organization appears to be expanding such that it has retained its core economic coordination tasks but has also become active in larger diplomatic arenas, particularly in the arena of international security. Third, the Eurasec has become a conduit for the activities of private commercial firms and state-owned trading enterprises in such a way that there is a close correspondence between national foreign policy objectives and commercial gain. For example, the expansion of Russia’s state-owned electric utility, Unified Electric Systems into Armenia, Kazakhstan, and Tajikistan has been facilitated by arrangements concluded under the auspices of the Eurasec.

The expansion of the mandate of the Eurasec may be to some extent a result of the more conscious, more energetic, and more carefully implemented foreign policy under Putin than under his predecessor. But some of the expansion is also no doubt a result of changes in circumstances. The most significant recent changes in international security came about as a consequence of the September 11 terrorist attack on the U.S. America’s response in the period immediately following the attack on America in assembling an international coalition to displace the Taliban in Afghanistan precipitated a major realignment in international alliance structures. Russia was one of the first countries to clearly associate itself with the American led war on terrorism. A close alliance partnership between Russia and America was soon solidified and institutionalized in a form of a strategic partnership. As the American military initiative went forward in the form of Operation Enduring Freedom in Afghanistan, progress took place in building confidence in diplomatic initiatives also appeared to take place. In order to secure a close association with American goals, Putin appeared to make several important concessions including not opposing the U.S. withdraw from the AMB treaty and in withdrawing bases from Vietnam. Putin also did not appear to object to the expanding role of U.S. military influence in Central Asia. By all accounts the expansion of the U.S. military into Central Asia with the establishment of bases near Karshi in Uzbekistan and Bishkek in Kyrgyzstan were unpopular with Russia’s
diplomatic, military, and intelligence establishments. Yet Putin appeared to at least not object to these American initiatives on the basis of the larger parallel purposes in the war against terrorism and the stabilization of Afghanistan.

The new American foreign policy toward Central Asian quickly shifted diplomatic relations in Central Asia. The Central Asian countries responded to the American overtures with alacrity. The Central Asian countries were quick to extend overflight rights to American military aircraft, were anxious to accept other forms of military assistance, and strongly supported the expansion of these military initiatives into other arenas including greater commercial and cultural transactions.

Some Russian observers were alarmed at the rapid sequence of what appeared to be very significant improvement in the American relations with the Central Asian states, reasoning that closeness with the Americans must entail proportional distancing for the Russians. Putin, however, did not object to the increasing role of the U.S. and, at least up until the onset of Operation Iraqi Freedom, continued to view U.S. influence in the broader Central Asian region as a stabilizing factor.

It is quite possible that this picture of the sequence of events misinterprets the objectives of many of the actors. Putin may have had a very different anticipation in September 2001 of what closer relations with America would imply. Putin probably did not anticipate how quickly the Central Asian leaders would throw in their lots with the Americans. In any event, it is likely that Putin foresaw an improved relationship with America as empowering Russia in Central Asia. A close relationship between Russia and America would mean that the smaller countries of Central Asia, Putin may have reasoned, would need

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10 S. Frederick Starr has argued that Putin initially tried strenuously to convince the Central Asian leaders not to agree to cooperate with the Americans. Starr argues that after many words of sympathy and condolences at the Crawford, Texas, meeting between Putin and Bush at which the basis for the Russian-American strategic partnership was worked out, Putin then “spent the next three days on the phone, cajoling the presidents of the five newly independent states of Central Asia not to cooperate with American requests to use their territory for strikes against Afghanistan.” S. Frederick Starr, “Putin’s Ominous Afghan Gambit.” The Wall Street Journal Europe (December 11, 2001).
to be more attentive to Russia’s strategic goals in Asia rather than less. As events proceeded, the diplomatic relations at least appeared to go in the direction opposite what Putin may have expected. Good bilateral relations between the American and each of the Central Asian countries evolved not at the expense of Russia, but essentially without respect to Russia. But things are not always what they seem in Central Asia. American relations with the Central Asian countries were celebrated by warm personal meetings of heads of state and formalized in partnership agreements. The Central Asian military bases proved to be crucial in the initial successes of Operation Enduring Freedom in Afghanistan.

America is an idealistic country whose strategic purposes cannot long conflict with its basic moral values. The rapprochement between America and the Central Asian allies was interpreted by the Central Asian countries as an offer of friendship implying recognition as equals. The rapprochement between America and the Central Asian allies was interpreted by the American side as an offer of friendship that was contingent upon a code of conduct that involved the partners living up to international standards of human rights, democracy, and fair play. The U.S. side underscored the pledge to combat terrorism and extremism in Central Asia but consistently pointed out that the war against extremism did not entail the elimination of pluralism. On the contrary, American policy makers consistently underscored that pluralism and the observance of basic standards of civil rights was the best long-term assurance of success in the struggle against extremism. American diplomatic missions routinely raised the issue of compliance with international human rights standards in the Central Asian countries as a condition for continuing the military relationship. The Central Asian leadership, in contrast, tended to interpret human rights activism as a campaign of political interference rather than disinterested help. Matters were made worse by the fact that leaders of Uzbekistan and Kazakhstan were personally drawn into civil court cases in America in ways that made them suspect political campaigns sought to discredit them.

The American led-war in Iraq raised questions in the Muslim countries of Central Asia about the implications of American unilateralism. But a fundamental change in perspective came as a result of the Rose Revolution in Georgia. If the question “Who Lost Georgia”
was a politically charged one for Central Asia.\textsuperscript{11} Central Asia’s Soviet-era leaders, none of whom were popularly elected in free and fair elections and all of whom had extended their presidential mandates in extra-legal ways, grew concerned about their own security even as they grew more concerned about the stability in the region.

The American offer appeared to include military assistance, protection against a rise of terrorism and extremism, greater access to the outside world, and normalization in Afghanistan. But the Americans did not appear to be making good on this offer. Tajik President Emomali Rahmonov, at the meeting that welcomed Russia into the Central Asian Cooperation Organization in May 2004, noted the success of the American-led coalition in Afghanistan in ousting the Taliban and demolishing the terrorist training camps. But Rahmonov complained that the “Afghanistan problem” was far from solved.\textsuperscript{12} He noted that the coalition had failed to capture Osama, failed to ensure against the spread of terrorism within the Central Asian region, and failed to confront the tsunami of opium that was building up in Afghanistan.\textsuperscript{13}

The American presence in Central Asia has definitely contributed to stability in the region. But the form which it has taken has also given rise to fears among the Central Asian political elite that America may not be able to carry through on some of its promises and may not be willing to carry through on the expectations that the Central Asians have created for themselves. It is this concern, more than any other factor that has sent the Central Asian countries back to the drawing board in an effort to work out arrangements among themselves to promote their own versions of political stability in the region. In this


\textsuperscript{12} Vladimir Socor, “Questions on Western Policies Overshadow Central Asian Summit.” Eurasia Daily Monitor Volume 1 Issue 22 (Jun 02, 2004)

context, the Eurasec was an instrument that happened to be in the right place at a time when Russia was looking for a format for extending its influence in Central Asia.

Conclusions

The Eurasec mechanisms were fashioned out of the lessons gained from trial and error of more than a decade of the CIS arrangements. CIS agreements initially were designed to coordinate monetary, customs, employment, tax, and investment policies on a region-wide basis. The CIS arrangements were designed to foster a free trade area, reduce internal tariffs, create common external tariffs, and establish a system for payments and settlements. Gradually the Eurasec members began to expand the overall mandate and list specific objectives of the organization. The Eurasec has set for itself the major task of forming a single energy area, a single transport area, a gas alliance, and a single securities stock market.

The incorporation of Russia into the Central Asian Cooperation Organization (CACO) in May 2004 and then the integration of the Central Asian Cooperation Organization into the Eurasec in fall 2005 represented a major restoration of Russia’s role in Central Asia. After chafing at insistent prodding from the U.S. officials and irritating activity of America-based non-governmental organizations, Uzbekistan reversed its position 180 degrees, abandoning the U.S. partnership and shifting back in favor of seeking greater support and commercial connection with Russia.14 Simplifying things in 2005, Putin announced that an agreement had been reached to simplify the organizations by merging the CACO and the Evrasec. Russia, Kazakhstan, Uzbekistan, Tajikistan and Kyrgyzstan thus agreed to merge within Eurasec as a single group.15 After signing the agreement to join the Eurasec, Uzbekistan’s president Islam Karimov announced that the reestablishment of close relations

14 In a specific legal sense, Uzbekistan shifted its emphasis to Russia but did not abandon the U.S. strategic partnership. The Memorandum of Understanding that established this relationship was not officially nullified.
with Russia went beyond mere cooperation: president Karimov asserted it was closer to restoring “union relations” [soyuzne otnoshenie], a code word harkening back to the close relations of the Soviet period.