Aligning pipelines and polities: Russia, the West, and Caspian energy resources

The geopolitics of Caspian oil and gas underwent a radical transformation in 1991 as a result of the disintegration of the USSR. During the Soviet era, the vast energy resources of its constituent republics reached the outside world exclusively through pipelines running through the territory of the Russian Federation. Thus, when the Soviet Union broke up, Russia became the sole transit state for Caspian oil and gas but, at the same time, new possibilities opened up denying Russia this monopoly by constructing pipelines bypassing its territory.

This was an attractive prospect for the Western allies concerned over the EU's (European Union) increasing dependence on Russia for energy supplies. In the 1960s, when West Europe drew up plans to import gas from Russia, the Western allies agreed, under US persuasion, to limit these imports to a maximum of 25% of the European Commission's total requirements. Currently, the EU's dependence on Russia for natural gas is closer to 30% and this dependence is likely to increase as a result of declining production in the North Sea. Thus, energy security considerations lead the West to seek direct access to overseas gas resources, bypassing Russia. Similar compulsions also explain Western initiatives to bring Caspian oil directly to global markets, without giving Russia the control and leverage it would have as a transit state. Furthermore, by directly linking the economies of the producers and transit states with the West, these countries might be drawn into closer political and strategic relations. Thus, conventional power politics calculations reinforce the energy security considerations underlying the search for new pipeline alignments.

As the US Energy secretary, Bill Richardson, explained in October 1998, 'this is about America's energy security, which depends on diversifying our sources of energy worldwide. It is also about preventing strategic inroads by those who do not share our values. We're trying to move those newly independent countries toward the West. We would like to see them reliant on Western commercial and political interests than going the other way. We have political interests than going the other way. We have made a very substantial political investment in the Caspian, and it's very important to us that both the pipeline map and the politics come out right'.

These were the driving objectives that explain the construction of the new 1768 – km – long Baku – Tbilisi – Ceyhan pipeline, a vast energy infrastructure project to bring oil from the Baku fields in Azerbaijan to global markets, through the territories of Georgia and Turkey, bypassing Russia. The construction of the pipeline was a major political undertaking. Its alignment had to take into account deep – seated regional problems – the conflict between Azerbaijan and Armenia over the Nagorno – Karabakh enclave, and the historical animosities between Turkey and Armenia. A pipeline lying through Armenia's would have been much shorter and more economical but the option was ruled out because of Armenia's strained relations with both terminal countries: Azerbaijan and Turkey.

If the alignment of the pipeline was shaped by existing political realities, it is also true that the pipeline alignment, in turn, helped to shape or strengthen new political realities. Thus, Georgia has developed close political and military ties with the Western allies. Georgia has expanded and re – equipped its army with US military assistance, contributed troops to peacekeeping operations in Iraq and Kosovo, and is a candidate for NATO membership. Conversely, its relations with Russia have deteriorated sharply as was witnessed during the recent armed conflict in Abkhazia and South Ossetia.

The first oil pumped from Baku reached the Trukish Mediterranean port of Ceyhan in May 2006, signaling a major success for the Western allies. The West has, however, been less successful in seeking

new pipeline alignments to bring Caspian gas to EU markets. In 2002, a number of European energy companies, led by OMV of Austria, proposed the construction of a new pipeline, which likes the Baku – Tbilisi – Ceyhan oil pipeline, would bypass Russia. Known as the Nabucco pipeline, it would connect Austria with Erzurum in Turkey, from where it would by linked to the Erzurum – Caspian Sea pipeline. The main sources of supply would be the Shah Deniz gas field in Azerbaijan and the Daulatabad gas field in Turkmenistan. In 2006, a consortium of European companies signed an agreement to pursue the project.

The Russians swiftly responded with a new pipeline project called South Stream, while officially denying that it would have negative consequences for Nabucco. In June 2007, Gazprom and ENI of Italy concluded a Memorandum of Understanding to build a 900 – km offshore pipeline connecting Dzhubga on Russia's Black Sea coast with Varna in Bulgaria, from where a northern pipeline would run to Austria, while a southern branch would terminated in Italy. In February 2008, Russia signed an agreement with Bulgaria, a NATO member, making it partner in the South Stream project – over the objections of the United States. Caspian gas would thus be supplied to central and southern Europe via pipelines running through Russia and Bulgaria. Passing under the Black Sea, the pipeline will bypass Ukraine, a difficult transit partner.

The readiness of EU companies to join Gazprom as partners in the Southern Stream project reflects ambivalence in EU energy security policies. The EU does not as yet have a common grid and its member countries do not have a unified energy security policy. Come of Russia's neighbours – Poland and the Baltic republics, in particular – are deeply concerned about the risks of over dependence on Russia. These countries are strongly supported and encouraged by the United States. On the other hand, major importing countries such as Germany, recognizing Russia's need for oil and gas revenues, are less apprehensive about the possibility of Moscow holding up gas supplies for political reasons. The former Soviet Union hand an unblemished record as an energy supplier throughout the Cold War period. The few blips in gas supplies in recent years were caused more by the failure of transit countries – Ukraine and, on one occasion, Belarus – to honour contract than by political muscle – flexing on Moscow's part.

Thus, the western countries have different assessments about the risks and benefits of closer cooperation with Russia in the energy sphere. As a result, they are not always in agreement on the question of where to strike a balance between energy security and purely financial considerations.

Excerpted from Chandrashekar Dasgupta – The Energy and Resources Institute, New Delhi