
GEOGRAPHICAL AND POLITICAL FACTORS IN TRANSPORTATION OF CASPIAN OIL AND GAS FROM AZERBAIJAN AND KAZAKHSTAN

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This article overviews the role of energy resources as a foreign policy tool in Azerbaijan and Kazakhstan cases. These countries are the key energy players in the region. The article tries to analyze and show the inside of the oil policy of Azerbaijan and Kazakhstan in the Caspian region and the related problems. The article shows that Azerbaijan and Kazakhstan face several limitations to using their energy potential to have independent foreign policies. The article explains the main assumptions of the theoretical approaches on oil politics with a particular emphasis on the Caspian region. In this regard, the article deals with different ways of policy. Finally, it intends to apply theoretical models to explain the role of hydrocarbons in Azeri and Kazakh foreign policies.

Key words: Energy, Oil Politics, Foreign Policy, Caspian Region, Azerbaijan, Kazakhstan.

One of the fundamental constraints for Azerbaijan to use hydrocarbons efficiently is the transportation problem. The neighboring Central Asia is a landlocked region and needs long pipelines for an outlet to the sea. Basic transport routes pass through Russia, Turkey, Iran, Afghanistan-Pakistan and China. Each route requires long pipelines, which can only be constructed with considerable international investment. Since the collapse of the Soviet Union, however, newly independent states have faced severe economic crises and limited revenues. Old fashioned methods and backwardness in technological innovation of these countries kept production on low levels. These shortcomings have prevented the better operation of fields and the delivery of Azeri and Kazakh hydrocarbons to global markets [Tekin, Walterova 2007: 176]. These countries are similar in many ways; the economy is mainly dependent on the development of oil and gas sector. The current situation in the world's economy is not encouraging and this is having a negative impact on individual economies [Donald 2014: 249]. In the short term, Europe's energy efficiency will play an increasing role in the development of the Caspian region [Gawdat 2004: 139].

One of the most significant factors that affects the transportation of the hydrocarbons is geography [Klare 2002: 187]. The problem of transporting oil and gas is an outcome of the region's geopolitical position. The development of the oil and gas potential of Azerbaijan and Kazakhstan depends on their pipeline politics [Olsem 2004: 40]. Yazdani (Professor, Director of the Al-Sabah Programme and Joint Director of the RCUK Centre for the Advanced Study of the Arab World in the School of Government and International Affairs, Special Advisor to the Islamic Criminal Justice Project in the Centre for Criminal Law & Justice) argues that Azerbaijan and Kazakhstan are not as lucky as the oil producers in the North Sea or the Gulf region to benefit from their energy reserves [Yazdani 2006: 197]. This has several reasons.

First, despite volatility in the oil prices that reached the 140 dollars limit in the last years, prices are likely to keep low in the foreseeable future [Inozemtsev 2009: 102]. This will lower commercial attractiveness of the Caspian oil relative to OPEC or North Sea oil, due to the higher production costs.

Second, high taxation of fossil fuels in the Western countries began to lower the demand for these fuels. This has also triggered the search for alternative energy sources such as renewable energy sources [Ismailov, Hasanov, Aliev 2010: 50]. Within this changing energy environment, the Caspian oil exporters may lose their significance due their relatively high production costs.

Third, OPEC producers (Kuwait, Qatar, Iraq and Iran) began to open their economies to foreign investments due to the increasing competition in the energy market. This will affect the transnational oil companies to prefer those regions due to lower prices.

Fourth, the increasing investments of the Western corporations in the Gulf region have decreased the production costs. Finally, as well as the Caspian region, non — OPEC producers in the Middle East, Africa and Latin America have become alternative energy suppliers for the global markets [Wendt 1992: 36]. This creates a serious competition in the energy market between these regions.

In a situation where the number of players has risen and the production and transport costs decreased thanks to the increasing competition of the market, geography becomes a key variable¹. The landlocked geographic position of Azerbaijan and Kazakhstan becomes one of the key obstacles to use their energy card efficiently and independently [Ghafouri 2008: 154]. Instead, they have remained dependent on transit states in order to supply the global energy demand. The geopolitics of the region has complicated the transportation of oil and gas from the Caspian Sea basin to the markets. Determination of the routes for flow of resources has therefore become a political issue. The rivalry over the pipeline routes promises economic and political gains for the countries that can use their resources effectively, while losers would be marginalized strategically [Alam 2002: 106].

Azerbaijan and Kazakhstan depend on Moscow until alternative transport routes are realized. Russia prefers northern routes in order to maintain its control over the pipeline infrastructure, which was originally constructed during the Soviet era. These routes extend from Baku to Novorossiysk and from Tengiz oil field in western Kazakhstan to Novorossiysk. The year 1991 was a crucial landmark for the Newly Independent States to gain their sovereign status and become equal members of the international community. Since then the United States, as a super power, kept an eye on the development processes of each ex- Soviet state, and particularly those of Central Asia [Kosayev 2009: 78]. Meanwhile, the US and the EU support Western routes to contain the Russian influence over the region. The primary objective of these actors is to bypass Iran and Russia. In 1997, the United States began to support the BTC (Baku-Tbilisi-Ceyhan) pipeline. This pipe-

¹ Worldwide Look at Reserves and Production. Available at: <http://www.ogj.com/articles/print/volume-112/issue-1/drilling-production/worldwide-look-at-reserves-and-production.html> (Accessed 02.03.2016).

line was supposed to connect (today connects) three countries: Azerbaijan, Georgia, and Turkey. Nowadays, it's the second-longest oil pipeline in the former Soviet Union, after the Drujba pipeline [Kashuro, Martushev, Rozanov 2015: 139].

There were two reasons, according to Olsen, that explain the American support for the BTC pipeline. First, the US ignored Iran as an alternative transport route. Second, it intended to minimize the role of Russia in the transport system [Olsen 2004: 40].

There are some favorable conditions that make Iran a possible central actor in the transportation of Caspian reserves. First is the geostrategic position of the country between the Caucasus, the Caspian Sea, Central Asia, the Persian Gulf, the Gulf of Oman, Turkey, Afghanistan and Pakistan. It can be the gateway for Caspian reserves to the open seas [Alam 2002: 106]. Further, Iran can deliver oil through swap agreements from Azerbaijan, Kazakhstan, and Turkmenistan to the global markets [Morgenthau 1985: 427]. This would enrich options of Azerbaijan and Kazakhstan for transportation. Rather than depending solely on Russia or the US controlled pipeline projects, there will be a third option to counterbalance the influence of Russia and the United States [Kashuro, Martushev, Rozanov 2015: 139].

The southern routes, supported by Iran and some major oil corporations, pass through Iran territory and terminate at the Persian Gulf. These are the shortest and cheapest routes. They pass through safer territories and carry less environmental risks [Yazdani 2006: 197]. As purely economic considerations, these routes offer the best options to transport Caspian hydrocarbons to the markets. The French oil firm "Total", in its report on transporting Kazakh oil, has also advocated that the cheapest and most rational route was going through Iran. However, the drawback of Washington about the political regime of the country delimited foreign policy choices of Kazakhstan in the field of energy [Suha 2005: 40]. However, the US opposes these routes due to the political and ideological controversies between Washington and Iran [Abushov 2009: 249]. Today a lot of controversy because of the way through Iran. What will be the situation after ten years it is a big question [Hlopov 2015: 96].

Under these circumstances, it becomes very difficult for Azerbaijan and Kazakhstan to choose the most suitable option to export their reserves and get the maximum utility. Hence, these countries depend on the Russian and Western oil firms, the latter mostly represented in the form of American oil corporations, in terms of their exploration and extraction of oil and gas. They have to consider the priorities of Russia and the US. As abovementioned, commercially, the Iran route would offer Caspian states an alternative to lower their dependence both on Russian and Western routes. The US, however would not allow Iran to increase its influence in the region. This has been the driving force behind the US policy towards the Caspian region. As a result, transportation problems prevent Baku and Astana to use their energy cards efficiently in foreign policy-making [Bauyrzhan 2014: 107]. Although they possess considerable amounts of oil and gas, they could not have delivered their resources independent of transit countries and those which control the pipeline infrastructure of the region. Thus, transportation problem has been one of the key barriers against Azerbaijan and Kazakhstan to use their reserves independently.

According to Waltz (an American political scientist who was a member of the faculty at both the University of California, Berkeley and Columbia University and one

of the most prominent scholars in the field of international relations), the security of states depends on providing a balance of power in the system. The stability of the system is ensured by balancing and counter balancing that occur regularly [Waltz 1979: 251]. In this regard, the Nagorno-Karabakh conflict can be considered as a matter of two major powers, the US and Russia.

These two states try to balance and counterbalance each other in the Caspian region, where a power vacuum occurred after the collapse of the Soviet Union [Rosenkvist 2005: 87]. Regarding Kazakhstan, Russian policy on the country and Astana's efforts to counterbalance the Russian influence with new dependencies on the European, the American and also Chinese partners has been a case for the approach. Within this context, Azerbaijan and Kazakhstan have become subordinated to the outcomes of the rivalry between two major powers. Thus, the system level is suitable to study the frozen conflicts within the region, such as the Nagorno-Karabakh conflict [Tekin, Williams 2009: 307].

Current strategy of the US towards the Caspian region is to encourage them to prefer routes that bypass Iran territories strengthen the role of Turkey as a regional power and to preserve the political and economic autonomy of Azerbaijan and Kazakhstan¹. In a neorealist manner, Washington tries to form a new balance of power in the region. According to the report of the Atlantic Council of US on Iran-United States relations, "the political support that the Clinton administration gave to the Baku-Ceyhan pipeline should be examined in this context: It helped Turkey, penalized Iran, and could reduce Russian influence in the Caspian region" [Akgun 2008: 194].

Since the beginning of the Caspian oil boom more than decade ago, Ankara has been attempting to play a significant role in the transport of strategic raw materials on the East-West route. The extraordinarily favorable position of the Asia Minor peninsula offers great transit potential for raw materials from the Caspian Sea, Russia and even the Persian Gulf/Middle East and Northern Iraq. Although the leading role in Turkish-EU energy cooperation is currently being played by the Brussels Flagship different pipeline projects [Souleimanov, Kraus 2012: 208].

This article examines the role of oil and gas in foreign policies of two countries separately. First, it deals with Azerbaijan. In the post-independence period, it was not an easy task for Azerbaijan to play its energy card. The country could not achieve a quick escape from Moscow influence. The first president Mutallibov was a pro-Russian politician. The next president, Elchibey pursued a pro-Turkish strategy and demanded Russian soldiers to leave the Azerbaijan territory for an absolute independence. This resulted in a decline in relations with Russia. Mutallibov compensated for its pro-Russian policy and Elchibey for anti-Russian policy by losing their presidencies. As a result, Azerbaijan compensated for these unstable policies by losing a large part of its territory [Ismailov, Hasanov, Aliiev 2010: 50]. Heydar Aliyev pursued a pro-Russian policy. However, this strategy did not fix the relations with Moscow. Then, in 1994, Aliyev turned to the West and started negotiations with the Western oil MNCs [Tekin, Williams 2009: 307]. This move has been an obligatory result of the political dynamics rather

¹ Worldwide Look at Reserves and Production. Available at: http://www.bits.de/public/documents/iran/0107-Thinking_Beyond_Stalemate_U.S.-Iranian_Relations.pdf (Accessed 01.03.2016).

than a voluntary choice. Political concerns began to dominate the energy strategy of the country. Azerbaijan had to get closer to the West, because it had to deal with security, ethnic and territorial concerns. These concerns obliged Azerbaijan to formulate a new foreign policy agenda, which enables to maintain closer relations with the US, the EU and Turkey. This new agenda intends to deal with more oil MNCs, to export more oil and gas, and not to antagonize Russia. Nevertheless, security concerns dominate foreign policy-making in the country. Baku still suffers from a regional frozen conflict, which poses a serious threat to its national security: the Nagorno-Karabakh [Nagiyev 2014: 87]. As a result, energy politics has been subordinate to security problems and political conflicts.

When compared with Azerbaijan, Kazakhstan has a more limited and constrained foreign policy agenda. The integration of Kazakhstan to the global economy has been limited, too [Alymkulova 2015: 357]. A reason for this is the Russian factor. Kazakhstan is severely restrained by Moscow in its foreign policy choices. For the most part, this pressure has been economic [Abushov 2009: 249]. The situation stems from the maintenance of the Soviet nomenklatura, which has been influential in preserving the economic, financial, institutional and political relations between two countries. The ability of Russian government and businesspeople to manipulate Kazakh economy has been another constraint for the country to achieve independent foreign policy-making. This dependence on Russia stems from several factors, which range from the control of the transport infrastructure to the existence of a considerable ethnic Russian population in Kazakhstan [Alymkulova 2015: 357]. Nearly fifty percent of the Kazakh population is composed of ethnic Russians. This exerts a considerable pressure on foreign policy-making when the Russian interests at stake.

When considered through the lens of neorealist and geopolitical approaches, rather than the topic of energy, geographic location and demographic structure of Kazakhstan dominates the foreign policy of the country. The overwhelming effects of geopolitics and the pragmatism of Nazarbayev will be effective on whether Kazakhstan will move to the East or West [Meherremov 2010: 154]. Geopolitical factors oblige the country to preserve its close relations with Russia, the US, the EU and China, as counterbalancing allies. Despite the efforts of Nazarbayev to make ethnic Kazakhs the dominant group within the demographic structure, Russia is likely to continue to dominate the foreign policy calculations of Astana. Although Kazakhstan has established multiple ties with the Western powers, proactive Russian policy towards the region constrains its foreign policy orientations. In addition, its relations with the US also oblige Kazakhstan to pursue such a balancing policy. For instance, although the US favored trans-Caspian oil and gas pipelines that deliver Kazakh oil and gas to the East-to-West energy corridor, plans to build a seabed pipeline to connect Kazakh oil to the “Baku-Tbilisi-Ceyhan” was suspended. Rather, Kazakhstan will carry oil from Aktau to Baku by tankers. This indicates that all strategic partnerships with Russia, the US and China are necessary and Kazakhstan would not favor interests of one of them at the expense of others¹.

¹ Worldwide Look at Reserves and Production. Available at: <http://www.ogj.com/articles/print/volume-112/issue-1/drilling-production/worldwide-look-at-reserves-and-production.html> (Accessed 02.03.2016).

It may be noted that the relations between Azerbaijan and Kazakhstan in the energy sector will continue to grow as both countries have mutual interests, which in turn are consistent with the interests of consumers in Western markets. But Kazakhstan in the coming years will not shift to the Azerbaijani direction, considering the Russian priority, and then the direction of the Chinese transport its hydrocarbons. Analysts predict the share of the South Caucasus in the direction of exports may increase to a maximum of 20% [Seyidova 2013: 129].

There are some critical factors that undermine the role of the energy resources in foreign policy-making of both Azerbaijan and Kazakhstan. Together with the problems they face alone, there are also some common key constraints for Baku and Astana, which limit their ability to use hydrocarbons as efficient foreign policy tools. Among the factors that facilitated this outcome, the following particularly stand out. The energy politics are always subordinated to the outcomes of the 'high politics' in Azerbaijan and Kazakhstan. Two of these keys constraint deserve particular attention: the legal status of the Caspian Sea and the lack of alternative transport routes to deliver the Caspian hydrocarbons to the global markets. Both of these security concerns far outweigh other foreign policy issues of Baku and Astana.

To conclude, under these conditions, it seems as too early for the generous resources of the region to serve Azerbaijan and Kazakhstan as a means of power. Azerbaijan and Kazakhstan, due to several factors in their foreign policy-making, including geography, security, demography and the involvement of the extra-regional actors in regional politics, could not use their resources in an expected way. Although they have sought to lessen their dependence on Russia by utilizing their hydrocarbons, this has led to the replacement of their dependence on Russia with a new dependence on the US, the European states and their oil MNCs for foreign investment and foreign capital to construct alternative pipelines. Contrary to the prevailing assumptions in the current literature, strategic natural resources do not guarantee independent foreign policy-making in resource-rich countries, like Azerbaijan and Kazakhstan. As well as these strategic resources, there are some other factors that shape foreign policy considerations of these states. In both countries, security concerns outweigh the energy policies. This makes them dependent on the other states for security, foreign investment, and cooperation in other fields. As a result, their energy policies become subordinate to the major powers, particularly on Russia, on which they are dependent.

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ГЕОГРАФИЧЕСКИЕ И ПОЛИТИЧЕСКИЕ ФАКТОРЫ ТРАНСПОРТИРОВКИ КАСПИЙСКОЙ НЕФТИ И ГАЗА АЗЕРБАЙДЖАНА И КАЗАХСТАНА

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В статье рассматриваются энергетические ресурсы в качестве инструментов внешней политики на примере Азербайджана и Казахстана. Данные страны являются одними из ключевых энергетических игроков в регионе. Автор статьи старается проанализировать и показать изнутри нефтяную политику Азербайджана и Казахстана в Каспийском регионе и связанные с ним проблемы. В статье показано, что Азербайджан и Казахстан сталкиваются с рядом ограничений на использование их энергетического потенциала, чтобы иметь независимую внешнюю политику. В статье описываются основные предположения теоретических подходов по нефтяной политике, с особым акцентом на Каспийский регион. В связи с этим в статье описываются различные пути внешней политики. В итоге показывается применение теоретических моделей для объяснения роли углеводородов в азербайджанской и казахской внешней политики.

Ключевые слова: энергетика, нефтяная политика, внешняя политика, Каспийский регион, Азербайджан, Казахстан.

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