



Game Over? Shifting Energy Geopolitics in Central Asia

Michael Denison

One of the coordinates structuring geopolitics in Central Asia since the dissolution of the Soviet Union has been competition for development of the region's oil and gas reserves. Political elites in Central Asia's producer states have viewed the sector as the locomotive for broader national economic development and an instrument for securing sovereignty. External actors have considered access to the sector as one mechanism to maintain or acquire regional influence, as an avenue for enhancing their energy security and, in commercial terms, as a global renewal opportunity for major corporate players.

However, the oil and gas industry is in the throes of rapid transition.¹ Patterns of demand, supply and trade are changing rapidly. New technology is unlocking unconventional reserves that shift the geography of production and reconfigure import dependencies. The energy mix of major consumers has been subject to external shocks such as the Fukushima nuclear disaster in 2011. The policy

Key Points

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The oil and gas industry is in the throes of rapid transition. Patterns of global demand, supply and trade are changing rapidly, reducing the geopolitical salience of Central Asia's oil and gas exports.

Security of supply from Central Asia is a lower order concern for China – its focus will be on maintaining strong political and commercial relationships; Russia will prioritize the retention of supplies to its domestic market; the geopolitical interest of the West in the region will be increasingly confined to non-state security threats.

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environment around climate change and renewable energy, alongside residual geopolitical stress points, continues to shape supply security and price. Moreover, ownership of resources, expressed through resource nationalism and the assertiveness of National Oil Companies (NOCs) is increasingly a factor calibrating investment decisions, particularly in high-cost high-risk plays.

This paper attempts to sketch briefly the implications of this industry volatility for Central Asian energy geopolitics. It asks whether, in age of potentially greater supply “length”, the discourse of the New Great Game characterizing Realist thinking about the region in the first two decades of independence has become somewhat redundant.

Game On

Central Asia’s energy potential has been an integral component of geopolitical discourse, both inside and outside the region, since the Soviet Union dissolved in 1991. Although Western engagement initially focused on the potential leakage of weapons-grade enriched uranium from poorly secured sites in Kazakhstan, commercial relationships were being forged by Western International Oil Companies (IOCs) at an early stage, often with significant diplomatic backing.²

The Soviet energy complex was structured around supplies to major population centers and export routes sited within and through Russia, together with a limited intra-regional infrastructure that enabled local resource sharing. Following the collapse of the ruble zone in 1993 and, coevally, any potential for a genuinely common post-Soviet economic space, Central Asian governments realized that maximization of oil and gas rents through investment and export diversification offered the most obvious route to political and economic sovereignty (as well as elite enrichment).

For the West also, development of the energy sector and with it, a more diversified export portfolio would strengthen regional security, smooth the transition to a market economy, and act as a bulwark against Russian revanchism.

Inflated estimates of the region’s proven reserves (the US Department of State’s now infamous 1997 report to Congress estimated that the Caspian basin could hold as much as 200 billion barrels of oil) lent further momentum to the construction of additional export pipelines that avoided both Russia and Iran. From Russia’s perspective, new oil and, specifically, gas pipelines that did not traverse Russian territory weakened its own political and economic hold on the region and potentially threatened its own near monopoly position in sections of the European gas market. Moreover, Russian strategists perceived that long-term energy investment projects in the Caspian basin would carry with them a security coupon: where Western IOCs led, NATO was not going to be far behind. Such were the parameters of the New Great Game discourse.

Friend Request

The fundamental design flaws in this version of Eurasian energy geopolitics were twofold. Firstly, Central Asian states rapidly moved from being consumers of externally constructed geopolitical plays to a position of agency.

The Kazakh, Turkmen and Uzbek leaderships all, to a greater or lesser degree, sought to balance national sovereignty, Western capital and the duality of both seeking and appeasing a Russian *droit de regard* over the region. However, President Islam Karimov was arguably the first Central Asian leader to actively seek to shape the wider geostrategic environment by leveraging Uzbekistan’s geography and resources for national advantage.³ Karimov exploited Uzbekistan’s status as a ‘frontline’ state after the 9/11 terrorist attacks to cement a security relationship with the US which, while subsequently strained to breaking point, served to indicate that geopolitical relations could, to some extent, be influenced by regional actors themselves.

In the energy context, Kazakhstan and Turkmenistan have sought to balance the maintenance of commercial ties with Russia while selectively accessing Western capital and technical expertise to incrementally diversify entry points into the global oil market and build gas trading relationships into Europe, South Asia, China and Iran. In the case of Kazakhstan in particular, the government has sought

to actively exploit the proximity of its resource base to a number of markets by progressively tightening the operating environment for IOCs since 2003, while pursuing strategic export projects such as the Baku-Tbilisi-Ceyhan (BTC) and Kazakhstan-China oil pipelines. For Turkmenistan, maximizing gas export potential has been a leitmotif of foreign policy, shaping relations with Iran, Afghanistan (including the Taliban pre-2001) and, most importantly, China through preferential upstream concessions and delivery of substantial volumes of Turkmen gas through the Central Asia-China gas pipeline complex.

The second design flaw, at least in the energy sector, was that external geopolitical influence was no longer coterminous with direct or informal control over local governance, much less with the sort of territorial hegemony discussed by the followers of the original Great Game theorist, Halford Mackinder. Given the historical legacy of Moscow's control over the region and Russia's significant territorial contiguity with Kazakhstan, Central Asia is perceived in Russia to be both a potential conduit for transient security threats such as illegal migration, narco-trafficking and Islamist terrorism and a potential source of ambient domestic security threats. For the US, Europe and China, Central Asia is largely unimportant in its own terms. None will extend meaningful security guarantees or expend significant resources on shaping (or facilitating consensual management of) the region's internal geopolitics. Therefore, Central Asia's value has not been intrinsic but rather residing in how it comports with external interests, prominent among them being energy security.

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In sum, energy geopolitics in the post-Soviet period has been constructed around two precepts: first, local and Western maximization of the sovereignty and agency of the Central Asian states and, second, through differing perceptions of in/security pro-

duced in the region that could affect external interests.

The Oil and Gas Revolution

The current revolution in the global oil and gas industry is likely to have collateral implications for Central Asian energy geopolitics. Through the application of technology and investment to extract shale oil, deepwater and pre-salt deposits, the global resource base is being progressively converted into recoverable reserves. In the period between 1980 and 2011, significantly more reserves were added (1771 bn barrels) than were produced (795 bn barrels).⁴ Simultaneously, patterns of consumption are changing. The OECD states are now 'no-growth markets' for oil due to a combination of climate change policy, the shifting transport market and substitute fuels from agribusiness, such as ethanol and biodiesel. Oil for transport demand (over half of consumption) in the US and EU is projected to fall by around 30% between 2009 and 2035, that is from 17 million barrels per day (mbd) to 11.5 mbd, while Asian demand is projected to increase from 7.5 mbd to 13.5 mbd.⁵ As a fungible product in a global market, oil price stability affects all consumers but supply security will matter most to China and East Asia.

The natural gas market is increasingly globalized as a consequence of the current expansion of Liquefied Natural Gas (LNG) transportation, the growing network of inter-regional pipelines and the mixture of spot and long-term supply contract pricing. Given the state of flux in the global energy market, claims of a "Golden Age of Gas" may still be premature.⁶ However, the alignment of several factors indicates solid global primary demand fundamentals underpinned by incremental expansion of supply. These include: government and industry expectations that gas can be a relatively clean bridging fuel to renewables; the rapid expansion of North American unconventional gas production, along with greater potential flexibility of supply through advances in drilling technology; the wider global distribution of shale, tight gas and coalbed methane reserves; the projected policy shift to gas from nuclear in power generation in Germany and Japan; and, serious ex-

ploration around the conversion of trucking fleets to gas.

Currently, there is a glut of gas on the world market: Henry Hub prices (the pricing point for US gas contracts) are at a low ebb.⁷ Russia's share of the European market is under pressure from Qatari gas (originally destined for the saturated US market) sold at spot prices lower than Gazprom's traditional preference for long-term contracts. Long-term supply contracts to bring significant Central Asian export gas to Europe are suddenly at the back of the queue.

Game Over?

East Asian consumers have an increasing stake in global oil supply security. In the case of China, which is driving hard towards urbanization and a consumption-led economy within a constricted political environment, secure oil supplies are one ingredient in keeping the domestic "show on the road".⁸ The diminishing reliance of the West on Middle Eastern oil represents a long-term strategic dilemma for China which has hitherto "freeloaded" on US security management of the region. Central Asia is a microcosm of the wider picture. Notwithstanding the activities of the Shanghai Cooperation Organization, China has generally acquiesced in Russia's privileged and engrained security and intelligence relationships with Central Asian governments, while, in the words of Bobo Lo, "continuing to take care of business".⁹

A critical and broad geopolitical question is whether China will build sufficient force projection capacity to shoulder some of the global responsibility for securing production facilities and sea-lanes. Given that the potentialities for supply disruption from Central Asia are much lower than from the Middle East and essentially hinge on areas such contract non-performance or expropriation, China is likely to maintain its focus on ensuring that bilateral political and commercial relationships stand fast rather than pursuing an overarching security presence in Central Asia. Energy geopolitics for China will essentially be energy *politics*.

From one perspective, the West's work is done in Central Asia. The sovereignty of the region's states is established and unlikely to be reversed. New pipelines East and West are either operational or are in advance stages of construction. Exploration and production contracts with IOCs have matured, albeit with frequent stress points that create operational risk. Notwithstanding the imminent on-streaming of Kazakhstan's Kashagan oil field and the latent potential of Turkmenistan's gas reserves to supply a number of regional markets, the region's importance for the West in contributing to the global supply balance, particularly in the natural gas market, has assumed comparatively lower significance. Similarly, there is very limited appetite in forcing the reordering of Central Asia's domestic politics, although democracy promotion activities and technical governance initiatives will continue. Central Asia's larger geostrategic significance to the West will lay increasingly in it being a site for the reproduction of insecurity, originating either locally or in Afghanistan, that would directly affect Western security concerns, notably through transnational Islamist terrorism or narco-trafficking flows that may be securitized, Latin American-style, into quasi-political narco-guerrilla activity.

In the global scheme, the likelihood of both would fall into the "low probability-medium impact" category in intelligence agency risk assessments and would not warrant the application of significant resources. Western attention on energy matters will focus on contract stability rather than grand design.

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Although Russian influence in Central Asia persists, particularly through the "soft power" of language and culture, informal business ties and in the security sector, its political and economic influence has stagnated. Presidential successions in Central Asia are less and less likely to be dictated from Moscow but will rather originate and conclude, perhaps untidily, within the region. Russia did not intervene in Kyrgyzstan's woes, does not involve itself heavily in Uzbek-Tajik spats and did not direct the presidential

succession in Turkmenistan in 2006. Russia's residual power as a "meddling agent" or "spoiler" has declined and, concomitantly, its strategic energy interests have shifted in a global market of medium-term supply "length", illustrated by the rapid decline of Gazprom's gas purchases from Turkmenistan. In practical terms, energy geopolitics will be *local* – securing supply volumes for regional Russian domestic consumption and maximum transit fees for oil throughput – while shoring up Russia's share of the European gas market.

What of the Central Asian producer and transit states themselves? After an initial period of naiveté in their dealing with external investors, the Kazakh, Uzbek and Turkmen leaderships all sought to exploit their resource endowments to assert national sovereignty and increase their room for manoeuvre with more major external actors. This bargaining power has receded as upstream and downstream projects mature and the contours of the global market alter. In particular, the shift towards globalization of the gas market and the growing potential for exploitation of unconventional reserves elsewhere places less of a premium on getting Central Asian supplies to proximate regional markets over and above the projects in train. The main card that producer states have is their territorial contiguity with China, the key market for global energy consumption growth.

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Given these factors, the principal shift in Central Asian energy geopolitics will be away from external competition for the region's resources towards the ability of the region's governments to make and stick to specific commercial agreements. In this sense, for the medium-term, it is "Game Over". For Central Asia, the geopolitics of energy will increasingly be the local politics of energy.

¹ John Mitchell, Valérie Marcel, and Beth Mitchell, *What Next for the Oil and Gas Industry?* (London: Royal Institute of International Affairs, 2012).

² Steve Levine, *The Oil and the Glory: The Pursuit of Empire and Fortune on the Caspian Sea* (London: Random House, 2007).

³ A pivotal episode was the failure of the Russian federal government to provide meaningful support to Tashkent following the Taliban's capture of Mazar-i-Sharif in 1997 and again in 1998.

⁴ Mitchell et al: 30; and *BP Statistical Review 2012*.

⁵ Mitchell et al: 15.

⁶ *Golden Rules for a Golden Age of Gas: World energy Outlook Special Report on Unconventional Gas* (Paris: International Energy Agency, 2012).

⁷ See "An Unconventional Bonanza: Special Report on Natural Gas," *The Economist*, July 14 2012.

⁸ Wiktor Bielski, *Commodities Outlook: Supercycle takes a Siesta*, VTB Capital Presentation (London), September 25 2012.

⁹ Bobo Lo, *Axis of Convenience: Moscow, Beijing, and the New Geopolitics* (Washington, DC: Brookings Institution Press, 2008), 92.

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