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# Playing Oil Politics in the Caspian Sea

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The Caspian Sea sits atop one of the world's largest oil and natural gas fields, but its full exploitation only began about a decade ago. Since then the resource-wealthy region has become the center of rivalry between Russian and western, mainly United States, interests.

About a third of the world's undeveloped natural gas and oil deposits lie beneath the Caspian Sea. Still, its energy potential remained largely untouched until the early 1990s, when many observers declared it the world's new "Oil Mecca".

The region has caught the attention of leading energy consumers, such as the United States, Russia, China, Japan, India and perhaps most of all the European Union, which by 2020 could import 80 percent of its natural gas from the area.

But according to some analysts, America's focus on the region was first driven by geopolitics, not energy security.

Michael Lelyveld, senior advisor at P.F.C. Energy, a global energy strategy firm based in Washington, says that at the end of the Cold War what had been a sea surrounded by the Soviet Union and one other country, Iran, became a scene of multiple states, which includes Russia, Azerbaijan, Georgia and Turkmenistan.

He adds that, since then, the U.S. government and private American energy companies have invested up to \$30 billion dollars in the Caspian basin. The political aim, Lelyveld says, is to help the new states stand on their own without Russia and become American allies.

"You have five countries that border the Caspian Sea and Russia which has the attitude that it inherited it from the Soviet Union as part of its sphere of influence. When the countries [Azerbaijan, Georgia and Turkmenistan] established their independence in the early 1990s, they had to serve their own interests and some of them looked west and naturally looked at the United States to give them export routes that were free of Russian territory. And that is the basis of the contention that has taken place since 1994," says analyst Lelyveld.

## **Energy Crossroads**

Hugh Barnes, Director of the Future of Russia Program at the London-based Foreign Policy Center, agrees. He argues, "There is a great fight at the moment between the West and Russia as to what is the best way of delivering the oil and gas from the Caspian Sea into Western markets. In the last decade, an initiative was set up, not much to Russia's pleasure, to bring oil out from the Caspian through Georgia and Turkey to Ceyhan, a Turkish port on the Aegean Sea."

According to Barnes, "The Caspian Sea is at the crossroads of global energy politics. It is a particularly troubled phase that those politics are going through, not just with the rise of the price of oil and gas, but also with the uncertainty over the future of Iraq oil and Iranian oil and gas. The Caspian Sea is in some ways the key card that plays into that equation."

The recently opened 1,700 kilometer-long Baku-Tbilisi-Ceyhan pipeline

is the first energy route for Caspian oil, bypassing Russian territory with the capacity to transport one million barrels of oil a day.

Vladimir Socor, a senior analyst of The Jamestown Foundation, a private research organization in Washington, contends that America's initiative in the Caspian is mainly aimed at preventing Russian energy domination over Europe.

"This U.S. policy", says Socor, "dates back to the [Gerald] Ford [presidential] administration. It is inspired by concern for the political solidarity of the Euro-Atlantic community and the NATO alliance. The thinking goes that in the event that Europe becomes overly dependent on Russian oil and gas supplies, then Europe's freedom of political decision-making in terms of NATO and common policies with the United States will be curtailed."

Russia is the world's biggest natural gas producer and second only to Saudi Arabia in oil production. Russia's gross domestic product reached \$1.5 trillion in 2004, making it the ninth largest economy in the world and the fifth largest in Europe. If its current growth rate continues, the country is expected to become the second largest European economy after Germany and perhaps the sixth largest in the world within a few years.

#### **Putin Spurns E.U.**

P.F.C. Energy analyst Michael Lelyveld suggests that all of this is helping Moscow to assert itself against the U.S. and E.U. policies - - most notably NATO and U.S. military expansion along Russia's borders.

"As Russia's strength increased, the terms of the debate have been much harder to get straight," says Lelyveld. "Russia feels that it is no longer in the weak position that it was. And the United States, perhaps, does not relatively look as strong as it did as its interests have been diverted elsewhere in the world."

And according to analyst Hugh Barnes, "Russia is now poised to play a game of energy blackmail with the West and to say, 'If you don't play according to our rules, we are going to take our bat and ball and go play with somebody else.' And that is a problem for the West because right now with energy where it is and the prices of oil and gas where they are. The West doesn't have very many sticks to force Russia back into line with."

Robert Cutler, a senior fellow at the Institute of European and Russian Studies at Carleton University in Ottawa, Canada, agrees that Russia's political and economic strength is growing. He says it was clearly demonstrated by Russian President Vladimir Putin in his recent response to the European Union's call to sign on to a multilateral commerce treaty.

"Putin," says Professor Cutler, "renounced signing the Transit Protocol of the Energy Charter Treaty, which would have obligated Russia to treat foreign companies the same as Russian companies when it comes to investment and energy exploration. It would have also given non-Russian actors equal access to the Russian pipeline system. He said, 'no dice.'" Carleton University's Robert Cutler adds that as long as oil and increasingly natural gas remain to be the lifeblood of modern economies, tension and conflict over energy resources between Russia and much of the rest of the world will likely continue in the Caspian Sea basin.

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