

# Caspian (Virtual) Energy Geopolitics

Written by Paolo Sorbello

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PAOLO SORBELLO, OCT 14 2011

Currently, energy geopolitics is being addressed in academia and in the news as though it were a battle among state and non-state actors alike over prices, supply, and transport routes. To the contrary, energy could also become the engine for much needed cooperation between countries that are not necessarily keen on collaborating. The analysis of the Caspian offshore field of Kurmangazy, a very particular case covered by very little academic and business literature, might perhaps help read energy dynamics more objectively, avoiding the influence of contingency-related biases.

### **Russo-Kazakh Relations over the Caspian**

The Caspian region is at the nexus of a geopolitical and geoeconomic web of relations regarding both littoral countries and their neighbors. The most important component of these relations is energy. Hydrocarbon extraction, production and export have a decisive meaning for the economy and the international recognition of the five Caspian states: Russia, Kazakhstan, Turkmenistan, Iran, and Azerbaijan. It is impossible to compare the resource volumes in the region's underground with Middle-Eastern ones. However, they represent a fundamental source for the equilibrium of energy supply and demand between Asia and Europe.

The root of the geopolitical puzzle in the Caspian region is the subdivision of its surface, seabed, and offshore resources. The Caspian is the biggest landlocked salt water basin in the world, which puts its legal classification up for debate. Whether it is legally recognized as a sea or as a lake will have important repercussions on the international laws that would become applicable for its subdivision. As of today, only bi- or tri-lateral agreements have seen any light, a trend started with the Russo-Persian treaty of friendship of 1921 – just before the constitution of the USSR (1923). Subsequently, Moscow and Teheran came to an agreement on commerce and navigation rights in 1940.

### **The political, economic, and legal story**

As of December 25, 1991, there are five sovereign countries that border the Caspian: in addition to Iran and Russia, there are the three former Soviet republics of Azerbaijan, Kazakhstan, and Turkmenistan. Each of the parties was driven by specific reasons to make their own particular legal claim over the path to follow in order to divide up responsibility and authority over the water basin. During the Nineties, dozens of meetings were held just to reconcile the positions of the various countries on this topic.

Kazakhstan was pushing for the partition of the Caspian in national sectors in compliance with the Law of the Sea (LoS). Russia repeatedly proposed a subdivision on the basis of the median line (a solution that would have granted a bigger section to Moscow). Turkmenistan actively sought to be left out from regional and international negotiations, in accordance with its isolationist policy. Azerbaijan, not having yet discovered its best offshore fields, sided each time with the available proposal that best fit its foreign policy interest. Iran did not recognize the partition of the Soviet Union, avoided any meeting that involved the Newly Independent States, and preferred to leave the Caspian whole, to be used jointly for fishing, navigation, and subsoil exploitation (it should be noted that the Iranian hypothetical section would contain insignificant amounts of hydrocarbons).

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In this, yet unsolved, geopolitical scenario, Russia preferred treading the path of bilateral negotiations, which would give multinational oil companies a legal framework that at least two countries abided to. The agreement with Kazakhstan, reached in 1998, established the median line as the principle for the partition of the north-eastern Caspian surface and seabed, and therefore of underground hydrocarbon resources. At the Ashgabat Caspian Summit, held in April 2002, during their parallel bilateral meetings, Putin and Nazarbayev signed a protocol that carefully delimited the respective sovereignty zones regarding three offshore fields that lay nearby the established boundary. *Kurmangazy* was assigned to Kazakhstan, *Tsentral'noe* and *Khvalinskoe* to Russia. As agreed upon in 2006, the three fields would be developed through the efforts of 50:50 joint ventures among Russian and Kazakh companies[1]. In particular, the case of Kurmangazy helps us understand the multidisciplinary and the importance of the role of energy in foreign policy decision-making.

## Great expectations for Kurmangazy

Kurmangazy lies about half way between the Russian and the Kazakh coasts. The offshore oilfield was given the name of the illustrious Kazakh composer Kurmangazy Sagyrbaev, who lived in the Nineteenth century and whose tomb can be found in Astrakhan, a Russian port on the Caspian shores.

Since May 2002 a joint venture is exploring its subsoil for hydrocarbon resources (chiefly oil). The governments of Russia and Kazakhstan nominated their national companies to lead the project. KazMunaiGaz (KMG) retains 50% and Rosneft 25% (the remaining quarter has yet to be sold by the Russian government after Zarubezhneft left the group in July 2002). The legal agreement was followed by the economic one, which shared the burden of initial explorations between the two governments.[2] Notwithstanding the preliminary geological analysis which returned good auspices in 2004 and 2007, the two drilling tests of 2006 and 2009 did not retrieve anything but dirt and salt water. The parties remain optimistic on the projected potential of the field[3], which goes beyond 7 billion barrels of oil (approximately one million tons). The shallow waters and the Jurassic chalk deposits keep the project promising according to company geologists.

Little reciprocal trust and, most of all, the discovery of the giant field of Kashagan a few miles to the East had slowed down Russo-Kazakh negotiations. KMG had tested waters with Total and Shell as possible buyers for the Kazakh share in Kurmangazy. Shortly after, a new policy on hydrocarbon and on foreign investments changed Astana's approach to the matter.

Since July 2005, the Production Sharing Agreement (PSA) between KazMunaiTeniz (100% controlled by KMG) and Rosneft-Kazakhstan licensed a subsidiary company for field operations (Kurmangazy Petroleum Ltd, 100% controlled by KazMunaiTeniz). This agreement was the first of a long series of failed negotiations within both countries' extractive sectors. However, the fiasco of first drillings left the involved companies' intentions unchanged. Rosneft and KMG still retain great expectations, mainly thanks to their national position, which has been boosted in capital and fortified politically, especially since the mid-2000s.

## No oil, plenty of ink

A simple sentence could summarize almost a decade of negotiations, both political and economic, over a field that has not brought a single drop of oil to the surface: "No oil, plenty of ink". Kurmangazy has interested diplomats and capitals from two energy-exporting countries, in spite of its limited dimensions. The issue that draws such focus on this site off the port of Bautino could therefore be other than just a hydrocarbon quest.

A growing ferment in academia[4] has considered energy to be more than a foreign policy weapon or instrument. Instead, energy could well intervene as a multidisciplinary and multi-level factor in foreign policy decision-making. On the one hand, two countries like Russia and Kazakhstan, whose legitimacy is rooted in the high levels of hydrocarbon production and export, who collaborate amicably on transborder security, education, commerce, and energy, could easily avoid building their relations on a yet-to-be-discovered well. On the other hand, Kurmangazy (together with other fields) might have served as the vehicle for the definition of power relations and division of the authority in the Caspian, for ameliorating the relations between each country's energy-arm, and for fueling the international debate

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on the Caspian Eldorado. All this was caused by nothing more than a contract, a feasibility study, and a couple of drillings.

Astana and Moscow could have prioritized a multitude of other questions: the Russian minority living in Northern Kazakhstan, the contrast over the double citizenship issue, the negotiations on the single economic area together with Belarus, border stability (as they have not militarized it). Russia is also holding back on commercial relations, due to the Chinese interest in Kazakhstan and Nazarbayev's readiness in answering requests from Beijing.

Together with the Tengiz-Novorossiisk pipeline, the Caspian Pipeline Consortium, the Central Asia-Center pipeline, the interconnection of the electricity grid, the Community of Independent States, and the Shanghai Cooperation Organization, Kurmangazy becomes a central factor for the cooperation between Russia and Kazakhstan. Furthermore, Kurmangazy is a paradigm of the important role of energy geopolitics even in a context in which countries are not linked by a dependency dynamic. On the contrary, the analyzed case suggests that foreign policy formation could be affected by a strong "energy" component.

## Conclusions and prospects

This quick account of Russo-Kazakh relations over the Kurmangazy oilfield is a good case in point in order to understand more complex dynamics that have characterized the relations between Moscow and Astana in the last ten years. Vacillations, misunderstandings, compromises, and accords followed each other during leading governmental meetings. Energy has played a peculiar role as the starter of the diplomatic dialogue and remained a cardinal foundation among the parties and in their relations with the exterior, as well as the other Caspian states, the EU, China, and the USA.

It might turn out that Kurmangazy will not yield as much oil as foreseen. In spite of this scenario, it is very probable that Russia and Kazakhstan will remain close, will continue to talk on energy matters, and will collaborate on current and new exploration projects. Thus, *soft power* aspect of the energy becomes highly relevant in both countries' foreign policy decision-making. Thinking traditionally, in such countries, the hegemony of the executive on the other powers would lead one to predict the opposite. Therefore, it becomes necessary to start including the energy variable in geopolitical analyses in a more systematic and consistent way.

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[1] Meeting between Putin and Nazarbayev during the Eurasian Summit in St. Petersburg, January 25, 2006. Available in Russian at the Kremlin's archives (last accessed: July 15, 2011) [http://archive.kremlin.ru/appears/2006/01/25/1432\\_type63377\\_100650.shtml](http://archive.kremlin.ru/appears/2006/01/25/1432_type63377_100650.shtml)

[2] The total approximately sums up to USD 10 billion.

[3] Estimates have not been modified since 2006.

[4] Adam Stulberg, *Well-oiled Diplomacy: Strategic Manipulation and Russia's Energy Statecraft in Eurasia*, SUNY Press, New York, 2007; Jeronim Perovic, Robert Orttung, and Andreas Wenger, *Russian Energy Power and Foreign Relations*, Routledge, New York, 2009; Adrian Dellecker and Thomas Gomart (Eds.), *Russian Energy Security and Foreign Policy*, Routledge/GARNET series, New York, June 2011; Paolo Sorbello, *The Role of Energy in Russian Foreign Policy towards Kazakhstan*, Lambert Academic Publishing, Saarbrücken, June 2011.