4 Energy and Politics

Since long, the Caspian region due to its geographical location and natural resources was and stays at the center of political and economic interests of regional powers. The region encompasses the territories of five littoral states bordering the Caspian Sea: Azerbaijan, Kazakhstan, Turkmenistan, Russia and Iran. However, when energy politics come into view, only three states of the region, namely Azerbaijan, Kazakhstan and Turkmenistan, are in the focus. The resources of the region are unevenly distributed. Kazakhstan, Azerbaijan and Turkmenistan hold significant amounts of the proven energy reserves in their respective sectors, which put these countries at the focal point of the Caspian energy politics. By contrast, Russia and Iran possess relatively small shares of proven reserves in their sectors of the Caspian Sea.

Chapter 4 describes the kind and dynamics of pipeline politics that started in the mid-1990s in the region, when initial rules of the energy game were set. The Caspian “energy game” is associated primarily with the oil and gas export from Kazakhstan, Azerbaijan and Turkmenistan. Analysis of the first phase of the Caspian energy development (from 1991-2005) will help to track the changes and understand the reasons of the shifts happening in the second stage (from 2006 to present). The chapter first analyzes the energy capacity of the region, and then elaborates on the policies of regional and external actors during the first phase of the Caspian energy development. The role and interests of Iran and Russia are elaborated within the context of geopolitical rivalry, as both energy producers have relatively small shares of oil and gas supply from the Caspian and their concerns in the region’s energy politics is strongly linked to their global, regional and foreign policy directions and priorities.

4.1 Caspian energy development in 1990s

Development of the oil and gas industry in the Caspian region followed through different trajectories determined by political and geographic conditions, which
divides Caspian energy development into two phases. Priorities given to the oil and gas supply have been shaping the nature of the energy politics in different periods of time. Various political factors and economic conditions have determined the trajectory of each phase and influenced the kind of the energy politics in the region by shifting priorities and the level of interdependencies among the stakeholders. Phase one illustrates the energy politics between 1991 and 2005, when development of the oil production was set as a priority (Shaffer, 2010). In the first decade after collapse of the Soviet Union, international oil companies and governments engaged in the development of hydrocarbon resources with primary focus on oil production, partially due to the greater capital expenditures necessary to start up natural gas production (Bahgat, 2007). Phase two covers the period from 2005, when the economic situation in Azerbaijan and Kazakhstan began to change and oil production start bringing revenues to producers (Shaffer, 2010). This phase is strongly linked to the rise of natural gas production and its export to the energy markets.

A number of factors played an essential role in shaping the first phase of Caspian energy developments, especially geography. It was playing a crucial role in development of Caspian energy production and export. Azerbaijan, Kazakhstan and Turkmenistan are the landlocked countries with limited export options depending on neighboring transit states for transportation of goods\(^\text{16}\). In other words, landlocked countries need to attain and maintain access to infrastructure and facilities in neighboring states for transit, in order to be able to participate in international trade (Idan & Shaffer, 2011, p. 241). The landlocked nature of the region was constraining transportation options of fossil fuels, as landlocked energy producers tend to have quite different patterns of production and export than those that border the sea, in areas such as export routes, price and international involvement (Shaffer, 2010). A need for construction of new pipelines, the fact that export will have to be transited through the territory of other states and the costs\(^\text{17}\) of such shipment were not commercially attractive for the companies. In case of realization, pipelines can become the subject of political manipulations and making the transportation vulnerable to disruptions.

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\(^{16}\) Defining terms: The term landlocked refers to a country having no seacoast whatever, being completely Mediterranean. The term transit state is defined as any state with or without seacoast, situated between a landlocked state and the sea, through whose territory traffic in transit passes. For more details see Glassner, M. (1970). *Access to the Sea for Developing Land-Locked States.* The Hague: Martinus Nijhoff.

\(^{17}\) Realization of the energy shipment from the landlocked regions is significantly more expensive than doing so from states with sea access.