

# Background

No. 1984  
November 15, 2006



Published by The Heritage Foundation

## U.S. Interests and Central Asia Energy Security

*Ariel Cohen, Ph.D.*

In the past five years, real and present dangers to U.S. national security, especially Islamist terrorism and threats to the energy supply, have affected U.S. policy in Central Asia. The region has great energy potential and is strategically important, but it is land-locked, which complicates U.S. access and involvement there.<sup>1</sup>

The United States has varied and at times competing interests in Central Asia. The region, which includes the five post-Soviet states of Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan, as well as Afghanistan and the Caspian basin, plays an important part in U.S. global strategy in view of its proximity to Russia, China, India, Pakistan, Iran, and other key regional actors. No less important are its ethno-religious composition and vast deposits of oil, gas, coal, and uranium.

U.S. interests in Central Asia can be summarized in three simple words: security, energy, and democracy. The United States is waging an enduring struggle to safeguard the West in general and America in particular, not only from terrorist threats emanating from Afghanistan, but also from overreliance on unstable sources of hydrocarbons in the Middle East. In that effort, it is essential that U.S. foreign policy not inflate the importance of one interest to the detriment of the others.

A key U.S. national security concern is the diversification of energy sources, and the Caspian region is a significant alternative source of fossil fuels. To put things in perspective, however, it must be noted that while the Caspian Sea's production levels are consid-

### Talking Points

- Not seeing eye-to-eye on every issue should not prevent states from working together to attain shared goals. Despite difficult issues in relations between the U.S. and Central Asian states, common interests such as energy development, fighting terrorism, and limiting nuclear non-proliferation should be pursued.
- U.S. involvement and assistance contribute to the economic, political, social, and security development of the states of Central Asia. The United States should remain as engaged as possible in the region to pursue its national interests.
- Continuous dialogue with regional actors, as well as with Russia, China, the European Union and its key members, Japan, and India, will demand give-and-take on both sides, and the U.S. may find that getting concessions requires making concessions. As the greater and more influential power, the U.S. may find it necessary at times to make the first move.

This paper, in its entirety, can be found at:  
[www.heritage.org/research/RussiaandEurasia/bg1984.cfm](http://www.heritage.org/research/RussiaandEurasia/bg1984.cfm)

Produced by the Douglas and Sarah Allison  
Center for Foreign Policy Studies  
of the  
Kathryn and Shelby Cullom Davis  
Institute for International Studies

Published by The Heritage Foundation  
214 Massachusetts Avenue, NE  
Washington, DC 20002-4999  
(202) 546-4400 • [heritage.org](http://heritage.org)

Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

erable, with peak production comparable to that of Iraq and Kuwait combined, they are much smaller than total Organization of Petroleum Exporting Countries (OPEC) output.

Production levels are expected to reach 4 million barrels per day (bbl/d) in 2015, compared to 45 million bbl/d for the OPEC countries in that year.<sup>2</sup> Central Asia is neither the world's largest source of oil and gas nor easily accessible; market access is hindered by political and geographic conditions, including continued Russian influence, limited access to waterways beyond the Caspian Sea, and limited export infrastructure.

However, the region is clearly important geopolitically and geoeconomically. Russia controls the majority of oil export routes from reserves in Central Asia and the Caspian.<sup>3</sup> Nevertheless, prior and continuing efforts by major Western oil companies, particularly the Baku–Tbilisi–Ceyhan (BTC) pipeline, as well as current and planned investments in the Central Asian oil sector by India and China, have yielded more options for non-Russian export routes and diversification of the customer base. These developments may help to break the Russian energy-transit monopoly, but they also open the region to intensified competition over energy resources on the part of other energy-hungry economies.

China is steadily increasing its involvement in the energy sector, as demonstrated by the purchase of the PetroKazakhstan oil company last year, acquisition of Canada-based Nations Energy by China International Trust and Investment Corporation (CITIC) in the fall of 2006, and the signing of several significant pipeline agreements. Russia and China have been cooperating to reduce U.S. influence in the region and, as they accrue more Central Asian energy assets, will have more leverage

with which to prevent U.S. encroachment into their alleged spheres of influence.

What is needed in Central Asia is a policy that allows the United States to continue to diversify its energy supplies, station its military forces close to the most immediate threats, and create a lasting and deep impact by promoting democratic and free-market values in an area that is still undergoing political and economic development.

Policymakers and lawmakers alike should assess how energy issues fit into wider U.S. strategic interests in the region and develop balanced, nuanced policies that allow the U.S. to stay engaged where necessary while distancing itself from the less savory aspects of these regimes. To achieve these ends, the U.S. should:

- **Support** projects to increase and diversify non-Russian energy transit routes for Central Asian oil and gas;
- **Further** develop ties with Central Asian states to expand trade and security relations with the U.S.;
- **Continue** to encourage good governance, modern institutions, and legislative reforms in Central Asia; and
- **Adopt** a nuanced approach to regimes with which the U.S. is not currently on good terms, allowing for engagement to address top national priorities, such as energy security and the global war on terrorism.

## Policy Overview

The hydrocarbon reserves of Central Asia are concentrated in the Caspian region. Azerbaijan is therefore a principal actor, despite its location in the Caucasus. It has considerable oil and gas resources in its own right and is central to non-Russian energy transit from Central Asia to points west. The bulk of Central Asian–Caspian hydrocarbons

1. For a detailed discussion of U.S. interests in Central Asia, see Ariel Cohen, Ph.D., ed., *Eurasia in Balance: The US and the Regional Power Shift*, U.S. Foreign Policy and Conflict in the Islamic World Series (London: Ashgate, 2005), esp. Chapter 3, pp. 69–101.
2. U.S. Department of Energy, Energy Information Administration, “Country Analysis Briefs: Caspian Sea Region,” September 2005, at [www.eia.doe.gov/emeu/cabs/Caspian/Oil.html](http://www.eia.doe.gov/emeu/cabs/Caspian/Oil.html) (August 2, 2006).
3. For a detailed discussion of U.S.–Russian competition in Eurasia, see Ariel Cohen, Ph.D., “Competition over Eurasia: Are the U.S. and Russia on a Collision Course?” Heritage Foundation *Lecture* No. 901, October 24, 2005, at [www.heritage.org/Research/RussiaandEurasia/hl901.cfm](http://www.heritage.org/Research/RussiaandEurasia/hl901.cfm).

is located in Kazakhstan, Azerbaijan, Uzbekistan, and Turkmenistan. Both Tajikistan and the Kyrgyz Republic have limited reserves of oil and gas in amounts that thus far have not warranted much attention from foreign investors.

Table 1, which shows proven and possible oil reserves by country, demonstrates that the region's largest oil deposits as well as the three largest regional oil projects are located in Kazakhstan and Azerbaijan. These three projects are in the Tengiz and Karachaganak fields in Kazakhstan and the Azeri–Chirag–Guneshli (deep-water) field in Azerbaijan.<sup>4</sup> Each project includes Western oil majors as shareholders.

- **Tengiz:** TengizChevroil (50 percent Chevron, 25 percent ExxonMobil, 20 percent Kazakh government).
- **Karachaganak:** Karachaganak Consortium (32.5 percent each Agip and British Gas, 20 percent Texaco, 15 percent LUKoil).
- **Azeri–Chirag–Guneshli:** Azerbaijan International Oil Company (operated by BP; other shareholders are Unocal, LUKoil, Statoil, ExxonMobil, TPAO, Devon Energy, Itochu, Delta Hess and SOCAR).<sup>5</sup>

Potential offshore reserves of Turkmen oil in the Caspian Sea have yet to be explored or developed because of disputes between Turkmenistan, Azerbaijan, and Iran over border delineation in the southern portion of the sea.<sup>6</sup>

## Oil Transit

Existing oil pipelines in Central Asia include the following:

- The Baku–Tbilisi–Ceyhan pipeline (BTC), with a capacity of over 1 million barrels per day, which runs from the Azerbaijani coast of the Caspian Sea to the Mediterranean coast of Turkey. Its major shareholders form a consortium that includes British Petroleum (BP), SOCAR,
- Chevron, Statoil, Total, ENI, Itochu, ConocoPhillips, and ExxonMobil.
- The “Northern” (Baku–Novorossiysk) and “Western” (Baku–Supsa) Early Oil Pipelines, with capacities of 100,000 and 115,000 barrels per day, respectively. These begin on the Azerbaijani coast of the Caspian Sea and travel to the Russian port of Novorossiysk and the Georgian Black Sea port at Supsa.
- A newly signed barge route agreement between Kazakhstan and Azerbaijan to supply 10 million tons (approximately 733 million barrels) of Kazakhstani oil per year initially to the Baku–Tbilisi–Ceyhan pipeline.
- Atyrau–Samara, a Russian-owned pipeline, which extends from Atyrau, Kazakhstan, to Samara, Russia. Its current capacity is 300,000 bbl/day, but Russia has pledged to increase its capacity to 500,000 bbl/day.

Country	Proven	Possible	Total
Azerbaijan	7	32	39
Iran	0.1	15	15.1
Kazakhstan	9–40	92	101–132
Russia*	0.3	7	7.3
Turkmenistan	0.55–1.7	38	38.55–39.7
Uzbekistan	0.3–0.59	2	2.3–2.59
<b>Total</b>	<b>17.2–49.3</b>	<b>186</b>	<b>203.2–235.7</b>

\* Includes only Caspian area oil production.

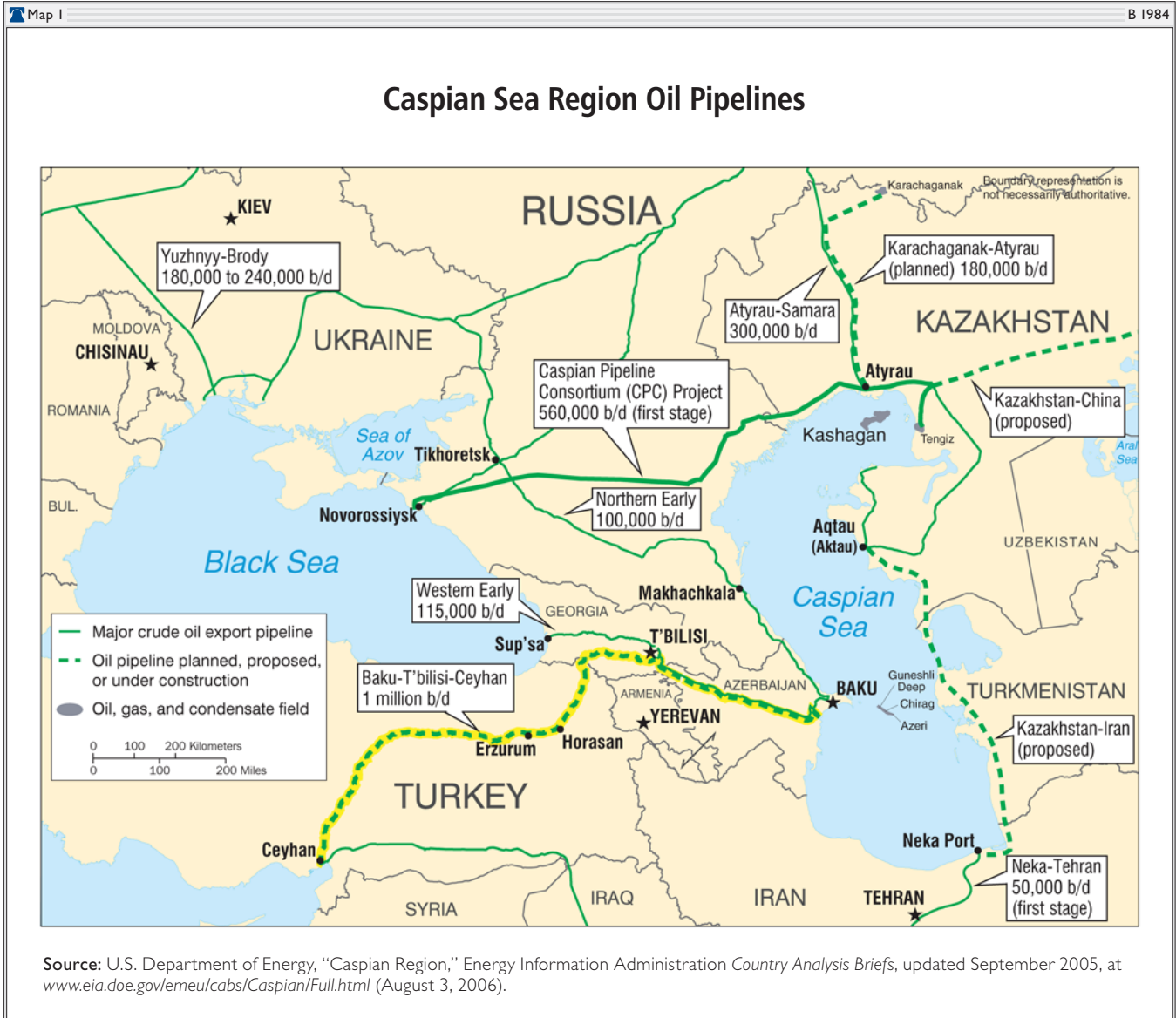
**Note:** The Caspian Sea Region's proven oil reserves of between 17.2 billion and 49.3 billion barrels are comparable to Qatar's oil reserves on the low end and U.S. reserves on the high end.

**Source:** U.S. Department of Energy, Energy Information Administration, "Caspian Sea Region: Survey of Key Oil and Gas Statistics and Forecasts," July 2006, at [www.eia.doe.gov/emeu/cabs/Caspian/Images/caspian\\_balances.pdf](http://www.eia.doe.gov/emeu/cabs/Caspian/Images/caspian_balances.pdf) (November 9, 2006).

4. U.S. Department of Energy, Energy Information Administration, "Country Analysis Briefs: Caspian Sea Region," September 2005.

5. Tamam Bayatly, "BP Current Developments," *Azerbaijan International*, Vol. 10, No. 1 (Spring 2002), at [www.azer.com/aiweb/categories/magazine/ai101\\_folder/101\\_articles/101\\_petrolium\\_bp.html](http://www.azer.com/aiweb/categories/magazine/ai101_folder/101_articles/101_petrolium_bp.html).

6. U.S. Department of Energy, Energy Information Administration, "Country Analysis Briefs: Central Asia," September 2005.



- The Kazakhstan–China pipeline, the first stage of which connects the Kazakh oil fields of Aktobe to the Kazakh oil hub of Atyrau and is already complete. The second stage, which will run from Atasu (northwestern Kazakhstan) to Alashkanou (Xinjiang, China) and will cost an estimated \$850 million and have initial and eventual capacities of 200,000 bbl/d and 400,000 bbl/d, respectively, is under construction.
- The Caspian Pipeline Consortium (CPC), which connects Kazakh oil deposits to the Russian port of Novorossiysk. It is owned and operated by Western companies, as well as the Russian,

Kazakh, and Omani government-owned companies, and has a throughput capacity of 560,000 bbl/d.<sup>7</sup>

- A pipeline that runs from the Shymkent refinery in Kazakhstan to Chardzhou, Turkmenistan (via Uzbekistan).
- An oil swap agreement between Turkmenistan and Iran whereby Turkmen oil is delivered to the Iranian port of Neka via barge.

It is estimated that the oil fields of Central Asia are capable of producing about 4 million barrels per day in 2015, roughly equivalent to the daily production



levels of Iraq and Kuwait combined.<sup>8</sup> Possible future oil pipeline projects include the Central Asia Oil Pipeline (CAOP) and the Kazakhstan–China pipeline, construction of which is already underway.

Finally, in December 2002, the governments of Turkmenistan, Afghanistan, and Pakistan signed a Memorandum of Understanding to construct the Central Asia Oil Pipeline, which would bring Uzbek and Turkmen oil to Gwadar, Pakistan, on the Arabian Sea. However, this project has been delayed by continued instability in Afghanistan.

## Natural Gas

The Central Asian countries with the largest reserves of natural gas are Turkmenistan and Uzbekistan, although there are considerable amounts of gas in Kazakhstan (particularly the Karachaganak field in western Kazakhstan) and Azerbaijan (Shah Deniz). (See Table 2.)

Central Asian gas transit routes that are not controlled by Russia are scarce and are currently limited to the as yet unfinished Baku–Tbilisi–Erzerum pipeline, from Azerbaijan to Turkey, and Korpedzhe–Kurt-Kui, which is short, extending only from Turkmenistan to Iran. Future projects are hindered by heightened political risk and an unfriendly investment climate.

Other than Korpedzhe–Kurt-Kui, all Turkmen and Uzbek natural gas exports are controlled by Gazprom, and almost all Turkmen gas is exported to Russia via Uzbekistan or to Ukraine via Russia. Existing gas pipelines include:

- The Central Asia–Center Pipeline, which routes Turkmen gas to Russia via Kazakhstan into Gazprom’s system of gas pipelines. Its East and West Branches have an annual capacity of 3.53 trillion cubic feet, and there are plans to expand capacity by 2009.

Country	Proven	Possible	Total
Azerbaijan	30	35	65
Iran	0	11	11
Kazakhstan	65	88	153
Russia*	N/A	N/A	N/A
Turkmenistan	71	159	230
Uzbekistan	66	35	101
<b>Total</b>	<b>232</b>	<b>328</b>	<b>560</b>

- Korpedzhe–Kurt-Kui is a joint project of the Turkmen and Iranian governments to bring Turkmen gas to Iran. It is the first non-Russian gas pipeline in Central Asia and has an annual capacity of close to 300 billion cubic feet (bcf).
- Tashkent–Bishkek–Almaty is Russian-owned and brings Uzbek gas to southern Kazakhstan. It is Uzbekistan’s major gas export pipeline and is also used to deliver gas to Kyrgyzstan. Its capacity is approximately 777 bcf.

Future gas transit projects include the Trans-Afghan Pipeline (TAP) and the South Caucasus (Baku–Tbilisi–Erzerum, or BTE) Pipeline. The TAP will bring gas from Turkmenistan through Afghanistan to Fazilka, a port on the Indian–Pakistani bor-

7. The Consortium includes the government of Russia (24 percent); the government of Kazakhstan (19 percent); the government of Oman (7 percent); Chevron Caspian Pipeline Consortium Co. (15 percent); LUKARCO B.V. (12.5 percent); Mobil Caspian Pipeline Co. (7.5 percent); Rosneft–Shell Caspian Ventures Ltd. (7.5 percent); Agip International (N.A.) N.V. (2 percent); Oryx Caspian Pipeline LLC (1.75 percent); BG Overseas Holdings Ltd. (2 percent); and Kazakhstan Pipeline Ventures LLC (1.75 percent). See Caspian Pipeline Consortium Web site at [www.cpc.ru](http://www.cpc.ru).
8. U.S. Department of Energy, Energy Information Administration, “Oil: Country Analysis Brief: Caspian Sea,” September 2005, at [www.eia.doe.gov/emeu/cabs/Caspian/Oil.html](http://www.eia.doe.gov/emeu/cabs/Caspian/Oil.html); “Oil: Country Analysis Brief: Iraq,” June 2006, at [www.eia.doe.gov/cabs/Iraq/Oil.html](http://www.eia.doe.gov/cabs/Iraq/Oil.html); “Country Analysis Brief: Kuwait,” June 2005, at [www.eia.doe.gov/emeu/cabs/kuwait.html](http://www.eia.doe.gov/emeu/cabs/kuwait.html) (October 30, 2006).

der. The governments of Turkmenistan, Afghanistan, and Pakistan signed a Memorandum of Understanding in February of 2006 for construction of the pipeline, and it also has strong backing from India. American officials are promoting the TAP, which will be renamed TAPI when India signs on, as an alternative to the Iran–Pakistan–India pipeline. However, instability in Afghanistan and questions surrounding the commercial viability of the project, which has a planned annual capacity of 1.1 bcf, have far delayed its implementation.

The BTE is currently under construction. It will run parallel to the BTC oil pipeline from the Shah Deniz gas fields in Azerbaijan to Greece and presumably will then be linked to Nabucco, a planned gas pipeline to bring Central Asian and Caspian gas through Greece, Italy, and Austria. The BTE's planned initial capacity is 1.5 bcf/yr, to be increased to 3 bcf/yr by 2007. Major shareholders include BP, Statoil, SOCAR, LukAgip, Nico (Iran), and Total.

### Further Investment

Western investments have made some inroads into the Central Asian oil industry, but the same is not true of the gas sector. The leaders of the biggest gas-producing countries—Turkmenistan and Uzbekistan—are not friendly with the U.S., and their investment climates are similarly unwelcoming.

Overall, in most of Central Asia, local economies are characterized by excessive government intervention, corruption, weak corporate governance, insufficient legislative frameworks, and incompetent, corrupt court systems. They exhibit a systemic failure to protect property rights.

Furthermore, they generally lack transport infrastructure that is not controlled by Russia. Yet Russia is doing its best to prevent foreign firms either from accessing its vast gas pipeline network or from

building competing pipeline networks. If multiple gas pipelines connecting Central Asia to outside markets are built, competitive bidding by companies from energy-consuming countries along with increases in both production and demand could drive up prices for Central Asian gas. Both investors in and consumers of Central Asian and Caspian oil and gas would derive great benefit from the increases in exploration, development, extraction, and production that have resulted from increased foreign direct investment in the region.

These benefits have yet to be seen, however, because the Central Asian natural gas sector has received very little outside investment until recently. Russia, through Gazprom, continues to profit from its position as the largest recipient of gas exports from Central Asia. Gazprom buys Central Asian gas at prices as low as one-quarter to one-third of market prices in Europe and then resells gas at market rates. In 2003, Turkmenistan signed an agreement to sell almost all of its gas to Russia starting in 2009.<sup>9</sup>

Recently, however, China also has expressed interest in Turkmen gas. On April 3, 2006, the leaders of the two countries signed a deal whereby an export pipeline will be built from Turkmenistan to China and China will buy 30 billion cubic meters (bcm) of Turkmen gas every year for 30 years beginning in 2009.<sup>10</sup> On the surface, this Chinese–Turkmen deal seems to bode well for the foreign investment climate in Central Asia; however, suspicions abound that Turkmenistan may be overestimating its reserves of natural gas.<sup>11</sup> Thus, there is speculation that Turkmenistan, in making its deal with China, may have oversold its reserves.<sup>12</sup> This very feasible possibility highlights the lack of transparency in Central Asia's oil and gas markets.

The same difficulties abound in Uzbekistan. Although foreign firms have expressed an interest

9. Vladimir Socor, "Central Asia Gas Update," *Eurasia Daily Monitor*, February 1, 2005, at [www.jamestown.org/edm/article.php?article\\_id=2369177](http://www.jamestown.org/edm/article.php?article_id=2369177) (August 2, 2006).

10. Daniel Kimmage, "Central Asia: Turkmenistan–China Pipeline Project Has Far-Reaching Implications," *Radio Free Europe/Radio Liberty*, April 10, 2006, at [www.rferl.org/featuresarticle/2006/04/55f9574d-407a-4777-9724-944e6c2ecd7b.html](http://www.rferl.org/featuresarticle/2006/04/55f9574d-407a-4777-9724-944e6c2ecd7b.html) (August 2, 2006).

11. S. Frederick Starr and Svante E. Cornell, "The Politics of Pipelines," Johns Hopkins University, School of Advanced International Studies, at [www.sais-jhu.edu/pubaffairs/publications/saisphere/winter05/starr-cornell.html](http://www.sais-jhu.edu/pubaffairs/publications/saisphere/winter05/starr-cornell.html) (October 30, 2006).

12. Vladimir Socor, "Turkmenistan–China Gas Agreement Unrealistically Ambitious," *Eurasia Daily Monitor*, April 10, 2006, at [www.jamestown.org/edm/article.php?article\\_id=2370964](http://www.jamestown.org/edm/article.php?article_id=2370964) (October 30, 2006).

in Uzbekistan, its natural gas sector remains largely closed to all comers except for Russia. Uzbekneftegaz had a production-sharing agreement with the British firm Trinity Energy, but Uzbekneftegaz broke the deal in 2005, alleging that the subsidiary company created to carry out the deal had not lived up to its end of the agreement.

Since then, Uzbekistan has been working more closely with Gazprom, signing a deal to provide Russia with up to 350 bcf annually, giving Gazprom access to gas fields in the Ustyurt region, and updating dilapidated gas pipelines.<sup>13</sup> In January 2006, Gazprom CEO Aleksei Miller signed a deal with Uzbek President Islam Karimov to transfer three of Uzbekistan's largest gas fields—Urga, Kuanysh, and Akchalak—to Gazprom, in effect giving the firm a monopoly over the export of Uzbek gas. Some analysts suggest that Karimov is courting Russian favor in exchange for Russian assistance with regime security.<sup>14</sup>

Turkmenistan and Uzbekistan are not prime targets for most foreign investors. Neither country has yet implemented any substantial economic reforms, and both can be described as abysmal in terms of transparency and rule of law. The U.S. Department of State warns that “The government of Turkmenistan has a history of capricious and arbitrary expropriation of property of local businesses and individuals, including foreign investors....”<sup>15</sup> Furthermore, poor relations between Uzbekistan and the West, and with the United States in particular, preclude most opportunities for investment by Western firms.<sup>16</sup>

### Investment Magnets: Kazakhstan and Azerbaijan

By contrast, U.S. involvement with Kazakhstan and Azerbaijan has been successful. In both countries, Western investment has been not only allowed, but facilitated by local governments, with a commensurate increase in per capita GDP and overall standards of living. Both countries are also now economically competitive in energy sectors on an international level.

Since independence, Kazakhstan has received higher levels of foreign direct investment per capita than any other Commonwealth of Independent States (CIS) country.<sup>17</sup> Investment in Azerbaijan rose by more than 30 percent between 2003 and 2004.<sup>18</sup> Both countries benefit from healthy levels of growth and foreign direct investment and have greater access to hydrocarbon export routes that do not go through and are not controlled by Russia. Although both countries have a long way to go to be considered mature democracies, their potential is undeniable, as can be seen with their more positive attitudes toward democracy, civil society, and the West compared to prevailing attitudes in Turkmenistan and Uzbekistan.

The two countries' success in attracting foreign direct investment in their oil and gas sectors is due to privatization and reform efforts, as well as openness to Western oil majors,<sup>19</sup> although certain regulations, such as quotas on foreign employees and domestic content requirements, continue to deter investment.<sup>20</sup> Courting investment from a wider range of interested parties and enhancing competi-

13. U.S. Department of Energy, Energy Information Administration, “Country Analysis Briefs: Central Asia,” September 2005.

14. “Business: Gazprom will see to stability of the Uzbek Regime,” Ferghana.ru, January 19, 2006, at <http://enews.ferghana.ru/detail.php?id=392328559837.44,557,4847695>.

15. U.S. Department of State, “2005 Investment Climate Statement—Turkmenistan,” at [www.state.gov/e/eb/ifd/2005/42192.htm](http://www.state.gov/e/eb/ifd/2005/42192.htm).

16. Marat Yermukanov, “Kazakh–Uzbek Relations Show Signs of Improvement,” *Eurasia Daily Monitor*, March 22, 2006, at [http://jamestown.org/edm/article.php?article\\_id=2370897](http://jamestown.org/edm/article.php?article_id=2370897).

17. European Commission, “External Relations: The EU's Relations with Kazakhstan,” June 2006, at [http://ec.europa.eu/comm/external\\_relations/kazakhstan/intro/index.htm](http://ec.europa.eu/comm/external_relations/kazakhstan/intro/index.htm) (October 30, 2006).

18. European Commission, “External Relations: The EU's Relations with Azerbaijan,” January 2006, at [http://ec.europa.eu/comm/external\\_relations/azerbaidjan/intro/index.htm](http://ec.europa.eu/comm/external_relations/azerbaidjan/intro/index.htm) (October 30, 2006).

19. Clinton R. Shiells, “FDI and the Investment Climate in the CIS Countries,” International Monetary Fund, 2003, pp. 9–10.

20. *Ibid.*, p. 18.

tiveness in their energy markets, both countries serve as an effective counterweight against pressure from Russia and China, and both have used this counterweight to their economic advantage.

### The Allure of Central Asia

There are many political risks to doing business in Central Asia. As previously mentioned, property rights, transparency, and law enforcement are still in the process of development in these countries. Corruption is endemic, as are human rights violations. None of these issues deters Russian or Chinese investments, making competition in the area more difficult for Western firms that seek investment guarantees. Furthermore, Russia is making every effort to keep Western investments out of its former sphere of influence.

Security, particularly in terms of Islamist terrorism and radicalism (the Islamic Movement of Turkestan, the global Hizb'ut Tahrir, Akramiyya of Uzbekistan, and other organizations), is a pressing issue for all of Central Asia's governments and may pose serious risks for potential investors in energy and vulnerable energy infrastructure.

Despite these political vulnerabilities, investors and governments in the U.S., the United Kingdom, France, Italy, Russia, China, and the Middle East still seem eager to lay claim to the hydrocarbon resources of Central Asia. One of the most attractive features of Central Asian oil and gas is that there are deposits that have yet to be explored or developed, and the national governments are reliant on foreign investors to provide the capital to undertake such costly projects.

Geopolitical considerations are another key concern as Central Asia continues to evolve as a highly important strategic area, especially for the U.S., Russia, China, Iran, and India. Political instability in other major oil- and gas-producing locations—the Middle East, Venezuela, and Nigeria—and increasing economic nationalism in Russia are also fueling the drive to claim a share of Central Asian resources.

### Gazprom Dominance

Russia's access to Central Asian (specifically Turkmen) natural gas is key to its domination of the European natural gas market,<sup>21</sup> primarily because of concerns, both within and outside of Russia, that Gazprom's production levels will not be sufficient to uphold its end of gas export deals. At present, it appears that Gazprom's natural gas export obligations cannot be met by Russian production alone, and future gas obligations, including a deal to provide China with 80 bcm of gas annually, will also require that Russia have access to the bulk of Turkmenistan's and Uzbekistan's production. As noted, this may be particularly problematic in light of Turkmenistan's recent deal with China, which seemingly involves selling twice as much of the same gas supply.

A recent study of the Russian gas industry gives the following annual projections: Russian annual gas production will be 665 bcm, domestic demand will be roughly 479 bcm, exports to the European Union (EU) will be around 161 bcm, exports to the CIS are projected at 80 bcm, and exports to Asia are projected at 24 bcm. To meet its export obligations, Russia will have to import 79 bcm from producers in Central Asia.<sup>22</sup> Russia therefore has an incentive to maintain its close political and trade ties with Kazakhstan, Turkmenistan, and Uzbekistan in the years to come.

However, Kazakhstan has been and will likely continue to be open to a diverse range of investors, while Turkmenistan has already begun increasing the price of its natural gas. As export opportunities for the Central Asian states increase, not only will gas prices go up, but supply may be redirected to countries other than Russia that may not demand the same discounted prices that Russia does. In 2005, Russia was paying \$44 per 1,000 cubic meters of Turkmen natural gas—five times below European gas market prices, which hovered around \$220–\$250.<sup>23</sup>

21. Ariel Cohen, Ph.D., "The North European Gas Pipeline Threatens Europe's Energy Security," Heritage Foundation *Background* No. 1980, October 26, 2006, at [www.heritage.org/research/Europe/bg1980.cfm](http://www.heritage.org/research/Europe/bg1980.cfm).

22. Roman Kupchinsky, "Russia: Gas Export Plans Dependent on Central Asia," Radio Free Europe/Radio Liberty, March 28, 2006, at [www.rferl.org/featuresarticle/2006/03/320159b4-42de-41b1-bce5-4a5b51161edc.html](http://www.rferl.org/featuresarticle/2006/03/320159b4-42de-41b1-bce5-4a5b51161edc.html) (August 3, 2006).



## U.S. Role and Policy in Central Asia: Energy and Beyond

The U.S. is unlikely to become a single dominant power in Central Asia, nor is there any reason why it should attempt to achieve such a status. Realistic goals—energy security; proximity to the main theaters of operation in the war on terrorism, Afghanistan and Pakistan; combating the traffic in drugs, weapons, and weapons of mass destruction technology; and encouraging participatory and transparent social and economic development—require a sustainable engagement. This is especially the case as the U.S. focuses its resources and attention elsewhere, primarily in the Middle East.

The strategic location of the region and the intense global competition over its energy reserves will, to a certain extent, keep the U.S. involved. U.S. engagement is particularly constricted by uneasy relations with current Central Asian regimes, whose authoritarian tendencies are of no consequence to Russia, China, Iran, or even India.

Even if the U.S. had the capacity to limit the presence of other large powers in the region, to do so would be unwise. First of all, the primary U.S. goals in the region are energy security and proximity to terrorist threats, not outright control. Limiting other powers in the region is unnecessary and would be a grave mistake, just as it was an error for the U.S. to support an oil and steel embargo on Japan in the 1930s, triggering Japanese expansion in the Pacific.<sup>24</sup> The U.S. and other great powers share the goals of stability, economic development, and preventing religious radicalization and terrorism. Rather than openly antagonizing China, Russia, or India over their involvement in Central Asia, the U.S. should pursue the benefits to be derived from regional cooperation.

Despite the unappealing nature of the region's authoritarian regimes, Chinese and Russian back-

ing of these governments contributes to their short-term stability, staving off political crises. Political disintegration in any of these countries would have severe consequences for regional security, because they are for the most part impoverished, dissatisfied, largely Muslim, and thus susceptible to recruitment by fundamentalist Islamic groups. Furthermore, heroin trafficking is a serious problem in all of Central Asia, particularly Afghanistan and Tajikistan, and the collapse of any of the states would allow for even more prolific smuggling in narcotics, people, and possibly even nuclear weapons components. Overriding strategic imperatives suggest that it might be best to tread lightly until the region finds a measure of stability that allows for change without chaos.

One way for the U.S. to play a more influential role in the region is through the use of partners, such as India. As India is a U.S. strategic partner, a stable democracy, and a growing economic power, a greater Indian presence in the region may be beneficial for U.S. interests. India is refurbishing a former Soviet air base in Tajikistan (Ayni), which is intended as part of an effort to contribute to stability in Afghanistan and to battle Islamist terrorism in Central Asia.<sup>25</sup> Both goals are shared by the United States.

India can also lend its support to increasing export options for Central Asian oil and natural gas. In addition to helping to break up the Russian natural gas transit monopoly, this would contribute to economic growth, stability, and improved relations between the pipeline transit countries of India, Pakistan, and Afghanistan, which is in U.S. interests.

It is vital that the U.S. maintain and expand a multifaceted presence in Central Asia. The benefits of U.S. involvement accrue to both sides: The U.S. can protect its security, military, and geopolitical interests and its energy access while helping to promote the development of democracy and civil society in Central Asia. The developing nations of

23. "Stalemate in Russia-Turkmenistan Gas Price Talks," NewsCentralAsia.com, December 12, 2005, at [www.newscentralasia.com/modules.php?name=News&file=article&sid=1638](http://www.newscentralasia.com/modules.php?name=News&file=article&sid=1638) (October 30, 2006).

24. "Sino-Japanese War (1937-1945)—Major Invasion of Eastern China by Japan," Japan-101 Information Resource, at [www.japan-101.com/history/sino1.htm](http://www.japan-101.com/history/sino1.htm).

25. Stephen Blank, "India: The New Central Asian Player," Eurasianet.org, June 26, 2006, at [www.eurasianet.org/departments/insight/articles/eav062606a.shtml](http://www.eurasianet.org/departments/insight/articles/eav062606a.shtml) (August 3, 2006).

Eurasia can gain access to much-needed U.S. investment, security assistance, and global integration above and beyond what they are offered by Russia, China, India, and Iran.

### Challenges to U.S. Energy Interests

A real challenge in promoting U.S. energy interests worldwide, including in Central Asia, is the high level of corruption in the state-run energy sectors. A recent report by the London-based Global Witness on the Turkmen–Ukraine gas trade “poses a difficult question for the EU and its neighbours: can they meet their energy needs without feeding corruption and undermining good governance in the countries that supply or transport this energy?”<sup>26</sup> This question could refer to other regions as well, including the Middle East.

The answer to that question, in Central Asia as well as in the Middle East, is a qualified “no.” This applies to both corruption and human rights abuses. Some argue that it would be unwise to sacrifice U.S. energy and security interests because of difficulty in dealing with regimes that do not share U.S. values. After all, such regimes are the majority among oil producers. This is a real challenge to U.S. policymakers.

The recent U.S. experience with criticism of President Islam Karimov of Uzbekistan over the Andijon massacre, in which the Uzbek military opened fire on armed Islamists as well as civilian protestors, is a case in point. This criticism provoked a harsh Uzbek response that resulted in the loss of both a strategic relationship and U.S. access to the Karshi–Khanabad air base. This incident can be seen as a valuable learning opportunity for U.S. policymakers. Intransigence on the issue of democracy development to the exclusion of other U.S. national interests and priorities has not served the U.S. well in Uzbekistan and has led to an overreliance on the Manas International Airport air base in Kyrgyzstan, which comes with an annual price tag in the \$150 million range.

Given the high cost of human rights priorities, a more relevant question in this climate of energy inse-

curity and tight energy markets would be: “How can the U.S. successfully balance its security, energy, and human rights priorities in a way that maximizes U.S. interests?” The U.S. needs to stay engaged with the leaders of most states and with elites, political parties, and the people in Central Asia. Only through this sort of engagement will the U.S. begin to rebuild its former status as friend and model to these countries, as opposed to an external superpower determined to topple regimes in the region.

### Policy Goals

By staying engaged and persistent, the U.S. may be able to make serious progress on achieving its objectives in Central Asia, which include:

- Resolution of intra-regional conflicts and support of political, economic, and security cooperation in the interest of fostering regional stability and economic interdependence;
- Promotion of transparent, law-based economic development based on market principles;
- Assistance to the development of communications, transportation, health, and human services infrastructure;
- Protection and promotion of U.S. businesses and investments;
- Promotion of an independent, transparent, and responsible government in each state; and
- Development and protection of human rights, tolerance, and pluralism.

### What Should Be Done

To achieve these goals, the National Security Council should coordinate activities by the U.S. State Department, Department of Defense, Department of Energy, and other departments to pursue the following policies:

1. **Continue to encourage** the governments of India, China, and Pakistan to create alternatives to the Russian energy transit monopoly by establishing new energy transit routes (pipelines, shipping lines, and railroads) that head west and, in some cases, east and south.

26. Global Witness, *It's a Gas—Funny Business in the Turkmen–Ukraine Gas Trade*, April 2006, p. 4, at [www.globalwitness.org/reports/show.php/en.00088.html](http://www.globalwitness.org/reports/show.php/en.00088.html) (November 10, 2006).

2. **Encourage** multinational corporations to diversify energy transit routes to mitigate risk. This is a common interest of the U.S., members of the EU, and China.
3. **Develop** closer ties to Central Asian states by stressing mutual gains from Western investment, military presence, and security cooperation. Specifically:
  - Assist economic and legislative reform in order to attract and protect foreign investors and spur economic growth;
  - Coordinate reform activities with international financial institutions and programs administered by the members of the EU, such as the British Know-How Fund;
  - Strengthen military-to-military, intelligence, anti-terrorism, and law enforcement relationships; and
  - Enhance democratic and civil society institutions through programs administered by the National Endowment of Democracy and non-governmental organizations.
4. **Adopt** a nuanced approach to states whose leaders are not amenable to cooperation with the U.S., specifically Turkmenistan and Uzbekistan. Specifically:
  - Emphasize common security interests, especially fighting Islamist terrorism, and pursue military-to-military cooperation when it is in U.S. interests;
  - Facilitate energy cooperation, including private-sector investment projects and transit (pipeline) projects that enhance hydrocarbon supply to global markets;
  - Support secular or moderate Islamic democratic opposition parties or figures (who necessarily must be opposed to any jihadi or terrorist-extremist sponsor states or organizations) without openly pursuing regime change;
  - Examine and encourage possibilities for stability-enhancing dialogue between existing regimes and democratic and moderate Islamic opposition groups to facilitate the opening of the political system;
    - Engage, where necessary, in public information campaigns to criticize existing leaderships and expose their abuses; and
    - Guard against Islamist backlash by supporting recognition and dialogue between existing regimes and secular opposition groups and other legitimate, non-destabilizing political actors.

## Conclusion

U.S. and Central Asian political, economic, and security interests are not mutually exclusive and may be better achieved through cooperation than through confrontation. Development and security of supply and transit is one such common interest that needs to be cultivated.

Not seeing eye-to-eye on every issue should not prevent states from working together to attain shared goals. Even if relations between the U.S. and Central Asian states or Russia are at a post-Soviet low point, common interests such as energy development, fighting terrorism, and limiting nuclear non-proliferation should be pursued and cultivated.

U.S. involvement and assistance contribute to the economic, political, social, and security development of the states of Central Asia. The United States should remain as engaged as possible in the region. Given recent tensions concerning values, preferred economic models, and political systems, such engagement will be complex. Continuous dialogue with regional actors, as well as with Russia, China, the European Union and its key members, Japan, and India, is required to coordinate policies and prevent crises.

This will demand give-and-take on both sides, and the U.S. may find that getting concessions requires making concessions. As the greater and more influential power, however, the U.S. may find it necessary at times to make the first move.

—Ariel Cohen, Ph.D., is Senior Research Fellow in Russian and Eurasian Studies and International Energy Security in the Douglas and Sarah Allison Center for Foreign Policy Studies, a division of the Kathryn and Shelby Cullom Davis Institute for International Studies, at The Heritage Foundation. The author wishes to thank Conway Irwin for help in researching and preparing this paper.