

# Russian Oil and Pipeline Politics in Caspian and Far Eastern Regions\*

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## Introduction

One of the dominant export-oriented industries in Russia, oil is a major source of tax revenue and wealth. As a paradigm for the Russian economy as a whole, the case of the oil industry provides invaluable insights for understanding the political and economic problems

confronting Russia today.<sup>1)</sup>

My paper consists of separate parts which I will study in the comparative perspective. First, Caspian area. Second, Northeast Asian region. In opposite to the biggest Russian oil region—Tiumen, which is Russian heartland with limited access to the international trade networks, both represents different Russian gateways—South and East.

This paper observes the roles by political bodies at the Russian federal, regional and local levels in the functioning in Caspian and Northeastern oil and pipeline sectors. Also the analysis in this article will focus on the interaction of politics and economics at the regional level, and will examine the conflict between the national policy agenda and regional interests. The geopolitical and global aspects of Caspian and Far Eastern oil and transit policy are also examined.

*Aims of research:* **First** aim is to obtain a better understanding of the factors determining international and regional differences in adaptation to coming of “oil boom” at Caspian and Far East. **Second** aim is to improve our understanding of the nature of the differences in the way a Russian national, regional and business elites trying to keep control of oil and transit resources for its own benefit.

## 1. Caspian Pipeline Routes and Political Situation in the Caucasian Relating Countries and Regions

No wonder that the Caspian has become a magnet for geopoliticians. Newly discovered oil on the Azeri shelf, in Tengiz and Karachaganak (Kazakhstan) and so-called Astrakhan North Caspian Depression (RUSSIA) earned the Caspian Basin the title of the energy treasure-trove of the twenty-first century. The leading American research centers look at them as an extension of the oil field of Iran and the Middle East in general. Experts of the Nixon Center for Peace and Freedom describe the area between the mouth of the Volga and Oman “The Strategic Energy Ellipse”.<sup>2)</sup>

In parallel to this, Caspian became a hot crossroad in terms of pipelines and the new cargo-transportation ways. The Caspian oil and gas is useless unless it can be got to market—and that takes some doing in an entirely landlocked part of the world. It is the route of potential export pipelines, more than anything else, that will determine regional alignment. In addition, the North-South transportation corridor is one of the largest and most strategically important investment projects involving Russia’s active participation. This corridor will provide full-service transportation of passengers and goods from India and Oman, via Iran and the Caspian Sea, to Russia and beyond—and back again. In September 2000, Russia, India, Iran, and Oman, signed a treaty on the corridor. Also on the eve of the summit of the Asia Pacific Economic Cooperation (APEC), held 14–15 November, 2000 in Brunei, President Putin made particular mention of transportation as an area of potential cooperation with Asian countries. This corridor is challenge for traditional route via the Suez canal and will bring enormous financial benefits to Russia. The new Transcaspian route is a serious competitor to new “Great Silk Road” idea.

Thus, Caspian region turned into a geopolitical apple of discord where interests of many states clash. The approaching Caspian oil and transit boom has raised one basic problem more starkly than before. How will resource wealth affect this region’s future? It could be an enormous opportunity to cement the Russian and new independent Caspian states, to accelerate economic development and to build new inter-regional ties. Yet sudden riches also carry many risks. History is awash with examples of countries that have

squandered their natural-resource wealth. A generation from now, will the resource-rich Caspian regions look more like Norway or like Nigeria? Will the resource-poor share in any prosperity or be left struggling?<sup>3)</sup>

This problem strongly depends from the internal factors and external influence in the area. In respect of domestic factors, Soviet era elites and Soviet era patterns of political and economic behavior predominate in most of Caspian countries and act as a strong drag on vital reforms. The main factors threatening stability are internal to the region: corrupt elites, the absence of thoroughgoing reforms, and deteriorating social conditions. Although there are common challenges and common patterns across the whole region, at present the Caspian region does not constitute a unified and homogenous whole. It is a space on a map, but will not become coherent and stable whole unless some things start to change. Projects such as the proposed Baku – Ceyhan pipeline are one of several ways in which “region – building” agenda could be advanced.

Regarding external influence, basically it was from two main actors: Russia and the USA.

Russian role: Russian policy is still hard to read. Russia's efforts to Caspian projects impeded progress. Russian military training in Caspian Sea at August, 2002 has strengthened Russian positions in Caspian. But Russian attack on Chechnya and recent (September, 2002) disturbing escalation of Russian military and diplomacy against Georgia shows that the potential for destabilizing actions by Moscow is still high. Finally, Russia's opposition to multiple oil export routes, unwillingness to transport Kazakhstani and Turkmeni energy to world markets on reasonably terms, and at times aggressive behavior toward the regional states has led to rising US interest in and assistance to the region.

US Role: At the beginning of 1990s the United States announced the Caspian Sea a zone of its vital interests. However, although some US officials earlier thought that the region could become a vital interest, that has not happened. Much of the US policy debate has revolved around metaphors (“the Great Game”, Pipelines to Prosperity”, “the Silk Road”) while implementation of concrete policies has lagged. The plan to build a Baku – Ceyhan pipeline (part of a general policy of multiple pipelines) became a rhetorical device that took on a life of its own. Debate over the project's strategic significance became divorced from the project's economic costs and benefits.<sup>4)</sup> But the events of September 11, 2001 lead to dramatic reconfiguration of American impact on Caspian area in context of the US anti-terrorist campaign.

*Hypotheses:*

1. I'd like to see a clearer statement about what in general national, regional and local elites of Caspian and Northeast Asian states is trying to do. My interpretation is that different levels of Russian government and Russian Big Business seeking rents. That means insisting on a development of the pipeline and oil extraction activities that will more good than available alternatives. In this context different segments of the national and regional governments as a broker for resources accumulation. This situation produced the strong dichotomy between different state and regional authorities.<sup>5)</sup>
2. Currently there is no single "Great Game", but a set of "games", which consists the interests and aspirations of the main regional powers (Russia, China, Japan, Iran) and the smaller Caspian states (Azerbaijan, Georgia) as well as business-actors (Russian and International Oil Companies—Lukoil, Yukos, British Petroleum, Eni Agip, Itochu, etc.).

*The Basic Ideas:*

– The arrival of so-called "big oil" has sparked a distinct feeling of euphoria and rapid self-enrichment in the Caspian states and regions. At the same time it has provoked fierce political competition between rival national elites and bureaucratic institutions at the Far East Area which struggle for control over these new revenues and opportunities. Over the past decade the Caspian countries (including Russia) has already experienced a sharp widening of income inequality (both between regions and between urban and rural communities within a given region). The arrival of oil development is likely to exacerbate this trend towards inequality, putting additional strain on an already fragile social and political system.

– In context of US "War against terrorism" the fact the strategic location of the Caspian, combined with its energy resources, means that the US cannot afford to be indifferent to the competition over Caspian. US policy gets over the practice to treat the Caspian as a lower-priority area when this policy was driven by the logic of bureaucratic agencies rather than the logic of national interest. US policy can get over a disjuncture between the approach of the US government and the approach of US corporations. US government supports for the building of a Baku-Ceyhan pipeline (part of a general policy of multiple pipelines) or even probably could be an easing of US policy toward Iran in the not-too-distant future. In both cases it will be destroying Russian monopoly on transit of Kazakh oil and Turkmen gas.

*Methodology:*

*Comparative framework for analysis.* Most international discussion of oil-pipeline and transportation politics in the Caspian region focus on the macro-politics of the process: the pattern of international relations and alliances that states enter into as part of their development strategy. Such approaches, while necessary of course, tend to overstate the homogeneity and rationality of the state as a political actor, treating it as a “black box” dedicated to some straightforward goal, such as protection of national security or promotion of national wealth. My research keep an international dimension of energy problem in Eurasia but will also turn attention to the meso-and micro-politics of the process: the interregional and domestic political and economic maneuvering that accompanies and shapes the drawing up of oil and pipeline projects and their actual construction and operation. The domestic and regional process includes of a number of players: factions within the top leadership, the interests of business corporations; and regional elites.

The focus of the study consists of states and regions that exemplify the major territorial participation (reference) to the Caspian and Northeast Asia. This is Russia, Azerbaijan, and Georgia at the Caspian area and Russia, China and Japan at Northeast region. Inside of Russia most important regions is Astrakhan oblast, Republic Kalmykia and Republic Dagestan on Caspian’s shore and Irkutsk oblast at East Siberia. The selection included also maritime Gateway on Black Sea—Krasnodar krai and on Far East—Primorskii krai. This selection makes successful analytical configuration for comparative study of the leading states and regions locating along the main ports and transportation ways of the Caspian and East Siberian oil and gas. Hence this region is developing as an important hub for the export of Caspian and Siberian oil and gas—thanks to the new built pipeline Tengiz-Novorossiisk and current pipeline plans Angarsk—Daiqin (or Angarsk—Nakhodka). Thus, currently are formed new oil transit “bridges” between Caspian and Black Sea as well as Irkutsk—Asia Pasific.

Aims of my project is to be done by (a) building up data-base on political and economical performance at Caspian and Siberian and testing hypotheses about the national and regional elites as a broker for resources accumulation, (b) conducting case-studies in Caspian region to improve the understanding of this role of Caspian governments and their current incentives, and thus to frame and refine hypotheses for testing on the rent-seeking. Then will use an approach about changing nature of Russian policy towards the Caspian and Far East regions in 21 Century. Namely, what is a long-term basis for decisive re-examination of Russian goals in Caspian and Northeast Asia? I will start with assumptions about the main motives of Caspian national and regional elites, and predict

regional policy agenda in context of Russian and American approaching and long-term staying in region.

*The present status of my research and current findings of my study* is based on firsthand materials and studies the policy of the Russia, Georgia and Azerbaijan as well as Russian regions along the Black and Caspian sea. My research data involved personnel interviews, sociological surveys, local press and documents of the Protocol Departments of regional administrations and Caspian Pipeline Consortium as well as Baku-Supsa Pipeline office. This included interviewing members of the local administrative, representative and business entities (city and regional heads of administration and their deputies and department heads; chairs of committees of the regional and city assemblies; and directors and other senior staff of large enterprises) about what they do and why they do it; the scope and frequency of contacts with federal bodies in Moscow; resource transfers from and to Moscow, Baku and Tbilisi; the coverage of local policymaking, together with the objectives of it and the perceived pressure on it. With respect to Northeast Asia study I based on newspapers and political analysis about near and far perspectives of building new Eastern pipelines; and their assessment of national economic outcomes in Russia, China and Japan. All these processes I observed in perspective of the impact of Russian policy on that region in context of long-term co-operation.

## **2. Modern Caucasian Pipeline “Games”: an appraisal**

The level of Caspian energy resources has been oversold. If we look at the discussion of Caspian energy in the mid-1990s, it talks about a wall of money hitting the area. It talks about a second Persian Gulf. That's not the case. [In the case of Saudi Arabian] reserves we're talking [about] hundreds of billions of barrels. Saudi and Persian Gulf capacities are just unmatched. But what we are talking about with the Caspian, it's about 4 percent of the world oil reserves, and that will play an important role in helping to set price on the margin. As an example the Kashagan oil field in the north Kazakh region of the Caspian. One of the five largest reserves in the world, it could sell some 50 billion barrels of crude. Also Central Asia has significant reserves of natural gas—more than either the United States or the North Sea.

Energy revenues could help regional producers create prosperous and stable states. But he adds the area—still struggling to shake off the burden of its Soviet past—still has many problems to solve. A fundamental problem, when you look at the Caspian region at the time of independence, is that all of the channels to export the energy resources ran from the south to the north. The pipelines were designed to supply the Soviet industrial

heartland and any exports to the West would only be via [Soviet Russia and Ukraine]. So at the time of independence, the countries found themselves in a difficult position, because the Russian energy sector now enjoys monopoly control over Caspian energy resources. And that's where the U.S. government entered and advised a policy of supporting multiple pipelines as a way of strengthening these countries and supporting their prosperity and their sovereignty.

The United States has been working for years to create an East-West energy corridor. The Baku-Tbilisi-Ceyhan pipeline, which will run some 2,000 kilometers from Azerbaijan to Georgia to Turkey, is the result of such efforts. The \$2.9 billion project is slated to bring oil into the deep-water Mediterranean port of Ceyhan in early 2005. Georgian President Eduard Shevardnadze says the project will earn his country some \$63 million annually and boost its GDP by 10 percent.

In this context I would like to consider two levels of political struggle relating to Caspian Pipeline in the Caucasus: a) State Pipeline Politics of Georgia/Azerbaijan; b) Local Pipedreams in South of Russia.

a) Georgia/Azerbaijan: Security A Concern As Pipeline Construction Set To Begin

Security for the Baku-Tbilisi-Ceyhan pipeline may soon be challenged as the project prepares to start construction in the volatile Caucasus region at February, 2003. Officials in both Georgia and Azerbaijan have raised alarms that could link the pipeline to regional conflicts.

Security fears for a long-awaited pipeline through the Caucasus rose sharply after a series of official statements and what appears to be a contained oil spill.

Azerbaijan and Georgia have both sounded alarms about threats to the Baku-Tbilisi-Ceyhan oil project, which is expected to start construction after eight years of planning.

The industry magazine "Oil and Gas Journal" highlighted the concerns this week, citing complaints by Azerbaijani Defense Minister Safar Abiev to British officials in Baku about Armenia's "aggressive policy" and stockpile of armaments. Abiev charged that they threaten the region, including the Western-backed pipeline known as BTC, the Turan news agency reported.

Armenia has not responded to the statement, but its president, Robert Kocharian, again called last week for a peaceful settlement of the 14-year conflict with Azerbaijan over Nagorno-Karabakh. Project sponsors have not reported an Armenian threat to the BTC line.<sup>6)</sup>

Abiev's charge was combined with fears voiced on 19 January by Gia Chanturia,

president of the Georgian International Oil Corporation, about alleged sabotage against an oil line from Baku to the Black Sea port of Supsa. The reported attack near the village of Sveneti, 60 kilometers west of Tbilisi, resulted in an oil spill variously estimated at 60 to 150 tons.

Speaking on Georgian television, Chanturia said: “The only aim was to harm the operation of the Baku-Supsa oil-pipeline project, which would have had consequences for the Baku-Tbilisi-Ceyhan oil pipeline. Our guess is that, after that, the investors would have been told that Georgia was incapable of dealing with security issues, that the oil pipeline would be damaged, leading to the destruction of the whole of Georgia and so on.” The report was transcribed by the BBC.

Chanturia denied that theft could have been the motive, but he was later contradicted by officials from BP Azerbaijan, the BTC operator, who later told Azerbaijan’s ANS television that thieves had apparently made a hole in the line. The flow of oil resumed in two days following repairs.

The relatively minor spill may do little lasting damage to the environment. Crews were said to be cleaning about 200 square meters of affected soil. But the incident is likely to unsettle environmental groups that have opposed the BTC route through Georgia’s Borzhomi Gorge, which is famed for its mineral water. Although Georgia recently approved the \$2.95 billion project with additional safeguards, some nongovernmental organizations have vowed to keep fighting it with potential lenders like the World Bank.

The worries also came during a week when Russian gas supplies to much of the region were cut off due to pipeline damage. Two separate mishaps have been blamed on a leak and a rock slide, officials told the Interfax news agency.

Taken together, the reports do not suggest any escalation of risks or threats, but they do point to a high level of tension over security for the 1,730-kilometer BTC project on the eve of construction. At the middle of January 2003, pipe for the project has been arriving by ship and rail. The line has been one of the top goals for Azerbaijan, Georgia, and Turkey, as well as for U.S. regional policy. At its peak, it would carry 1 million barrels of Caspian oil per day to Turkey’s Mediterranean port of Ceyhan.

Security plans appear to be accelerating. At the beginning of January 2003 BP political adviser John Gerson visited Georgian officials for briefings on the preparations. Georgia plans to deploy troops who have been trained in a U.S. antiterrorism program, which has been under way for nearly a year. Georgia has also reportedly held talks with U.S.-based Northrop Grumman Corporation for an electronic surveillance system to guard the 235 kilometers of line on its territory.

But all the alarms and precautions are also signs of recognition that none of the region's ethnic disputes or security problems have been solved, despite years of efforts before the project commenced.

Relations between Georgia and Russia remain unsettled over Chechnya and Abkhazia, to the point that the two countries issue conflicting statements on the state of their relations on the same day.

On 22 January, for example, Russian Foreign Minister Igor Ivanov greeted Georgia's parliamentary speaker, Nino Burjanadze, at a meeting in Moscow, saying Russia wanted "good-neighborly contacts." Russia's official RIA-Novosti news agency reported the statement less than an hour after carrying a stern Foreign Ministry warning that, "Georgia alone will bear responsibility" for demonstrations at the Russian Embassy in Tbilisi.

While the conflict in Chechnya shows no signs of ending, statements like Abiev's suggest that some Azerbaijani officials may be quick to link pipeline problems to Armenia and Nagorno-Karabakh. Some Georgian officials may likewise jump to conclusions about incidents of common theft.

The situation may also point to a key function of the pipeline security system in providing accurate information to head off false alarms and keep them from creating security problems of their own.

#### b) RUSSIA at 1990s: North Caucasus Windfalls?

In this part of paper I look the impact of oil related windfalls on Astrakhan oblast and the Republic of Kalmykia.<sup>7)</sup>

Russia's tentative market reforms have exacerbated an extreme polarisation of regional wealth and differentiation in salary levels. It is estimated that the only other country in the world with such pronounced internal income differentiation is South Africa; there, the differentiation stems from the historically conditioned accumulation of wealth in the industrial centres.

Russian economic polarisation is in large part driven by a focus on the extraction of natural resources and their convertibility into hard currency. In particular, in elite and popular perceptions, oil and gas have become symbols of wealth and power. At the other end of the economic spectrum, agriculture has become, in Russian perceptions, a standard of economic uselessness.

This trend was encouraged in the early 1990s by changes in the geopolitical and energy maps of the Caspian region. The discovery of new oil reserves in Azerbaijan, in the Kazakh Tengiz oilfield, and Astrakhan Oblast (North Caspian area), have shifted

attention to the Caspian region's energy potential—which the USA among others has sought to tap. By the mid-1990s, the Caspian sea had turned into the central object of multiple struggles between major and minor interests.

In the context of the development of the Caspian oil industry, two Russian regions have played a particularly important role: Astrakhan Oblast and the Republic of Kalmykia. Daghestan is also on the Caspian and has some (limited) oil reserves. However, Astrakhan and Kalmykia are the two regions with access to the most oil-rich part of the North Caspian, and they are both transit territories for the Kazakh-based Caspian Pipeline Consortium's (CPC) export route from Tengiz to the Russian Black Sea port of Novorossiisk.

The two regions are traditionally on Russia's periphery, both politically and economically. However, North Caspian oilfields and the construction of the Tengiz-Novorossiisk pipeline have drastically altered expectations among their elites and populations.

The CPC is greatest project of its kind involving Russia in the last ten years. It involves the construction of a 1,580 km pipeline, the initial capacity of which will be 28 million tons annually. Capacity is subsequently projected to grow to 67 million tons a year. The CPC line starts in Tengiz, curves around the north of the Caspian, and joins the Caspian and Black seas via Astrakhan, Kalmykia and Krasnodar krai.

The arrival of so-called 'big oil' has sparked a distinct feeling of euphoria and rapid self-enrichment in the two regions. It is estimated that, over 40 years of CPC operation, Russia's national and regional budget will receive more than 23.3 billion dollars in the form of tax revenue and profits. Over the same period, Astrakhan and Kalmykia are forecast to receive windfalls of 1.7 billion dollars and 1.8 billion respectively. These are very significant sums in proportion to the population of the two regions, which number just 1.33 million and 319,700 inhabitants respectively.

These prospects have radically changed the perceptions, motives and behaviour of the regional governments regarding the place and role of their territories within the Russian economy. Both have started to defend their energy interests, in contrast to their traditional economic strengths: Astrakhan is the world's leading producer of black caviar, while Kalmykia traditionally specialises in agriculture (in particular animal husbandry). There has also been a shift in the rhetoric of local political elites. Kalmyk President Kirsan Iliumzhinov has for some time declared that Kalmykia will become "an oil republic" and that, once 3 million tons of oil have passed through the CPC, the region's citizens "will no longer need to work". Astrakhan Governor Anatoly Guzhvin, who is usually discreet in his political statements, has recently started to make prognoses of a

similar type, claiming that living standards in his region will become the highest in Russia, while the city of Astrakhan will become the capital of the Caspian region.

The decentralisation of politics in the 1990s saw the emergence of political struggles between localities for control over natural resources and their flow, in the background of the degeneration of the national and regional economies. The conflictual relationship between Astrakhan and Kalmykia is the result of their mutual dependence on natural resources. The oil factor has provided a new dynamic to the regional authorities' political interests and significantly altered these regions' ability to deal with their economic and political vulnerability.

Future prospects could be affected by two of factors:

1. Expectations of quick benefits from oil-related windfalls are likely to remain a central factor in regional politics for some time. Conversely, the ability to be seen to deliver tangible benefits from the windfalls was a determinant of political success and failure.
2. The situation changed significantly today because the control of central government is reasserted over these regions. For the time being, President Vladimir Putin's policy of tighter central control has not had an impact on the regions through which the CPC passes. While this may change after the CPC come online, recentralisation is most likely to affect the regions' purported control of Caspian oilfields.

The second scenario is dominated: now the central control of President Putin is more strongly asserted over the North Caspian oilfields. This means the end of "Political game" of Russian localities for Caspian oil and pipelines.<sup>8)</sup>

### **3. The Ramifications of Energy Demand and Supply for International Cooperation in Northeast Asia**

Since the 1970s, energy issues have become tightly interwoven with economic, social and political problems, largely determining the development process of global and regional economies, as well as influencing national security and political stability.

The end of the Cold War has brought positive political changes in the Northeast Asia (NEA) region and the opening of the Chinese and Russian economies has enhanced multilateral economic cooperation. However, there is no widely recognized conception of economic cooperation in the region. Even the geographic definition of "the NEA region" itself remains rather "vague", lacking definite territorial identification. Policy-makers and researchers have included a variety of countries along with various sub regions with dif-

ferent economic and political characteristics to the NEA region's definition.

The concept of regional economic cooperation in NEA still lacks a basic driving force behind economic cooperation. It is also necessary to take into account the existing political tensions among the region's members as well as cultural, ethnic and institutional obstacles. NEA has no general economic or sectorial institutional agreements or unions like the European Union, ASEAN, OPEC, the European Energy Charter, or the ASEAN Council on Petroleum (ASCOPE, NORDEL, etc.).

Despite recent positive political and economic trends, Northeast Asia lacks sufficient mechanisms to facilitate economic cooperation as well as those to facilitate trade, technology and investment transfers.<sup>9)</sup>

The NEA energy demand-supply sector holds significant potential for multilateral resource cooperation. Such interaction goes beyond simple export-import trade relations; the ramifications and implications of such interaction could link the region in an "energy community" and thus contribute to the process of regional integration. Similar to the International Energy Agency's approach, three key policy challenges derived from the ramifications and implications of energy demand-supply can be applied to Northeast Asia.

At present, the trends and opportunities for energy cooperation and interaction in the Russian Far East with the North East Asia countries can be viewed as part of Russia's general economic and political strategy of shifting its geopolitical direction eastwards. Russia has a strategic problem in the Asian Pacific Region, a problem of consolidation in the Northeast Asian subregion. The interests of Russia as an Euro-Asian power, undoubtedly, face not only the West, but also the East. The Asia Pacific Region's growing importance in the global economy will lead to an increase in the Russian Far East's significance.

One positive concrete example of the Russian Far East's internal geopolitical shift toward the Asia Pacific Region is the 1996 Federal Program for the Social and Economic Development of the Russian Far East. The Program consolidates Russia's strategic interests and long-term priorities with regard to its eastern regions. Although the Program has faced obstacles in its implementation, it is a political and institutional recognition of the Russian Far East's importance as a region that has affected the country's eastward geopolitical shift.

Necessary to understand the geostrategic meaning of the Russian Far East's energy potential, for the necessity of increasing exploration, and for reassessing its role in the 21<sup>st</sup> century. The general amount of potential oil resources is estimated to be 29 billion

tons, for natural gas—33 trillion m<sup>3</sup> (1000 trillion feet cube).<sup>10)</sup>

**Russian Pipeline Politics in the Northeast Asia: competitive conditions inside the region.**

Russian Prime Minister Mikhail Kasyanov has told private oil companies that their pipeline projects will remain under state control. The statement is seen as a victory for the pipeline monopoly Transneft, but it could complicate export policies toward countries including the United States, China, and Japan.

Prime Minister Mikhail Kasyanov may have declared Russia's policies toward its oil industry and several foreign nations simultaneously with a statement supporting Transneft, the state pipeline monopoly.

During a visit to the arctic port of Murmansk, Kasyanov announced that all oil pipelines built in Russia "would remain state property," the official RIA-Novosti news agency reported. The decision means the government would give Transneft control over a \$4.5 billion pipeline to Murmansk that private oil companies are planning for exports to the United States.

Kasyanov said that private investment in the project could give the companies lower tariffs for their oil transit, but it would not give them control. The stand is bad news for the companies, who are reluctant to stake billions of dollars on pipelines if the state can raise the transit fees.

The Kasyanov statement came a day after the Interfax news agency reported that five oil companies had sent him a letter, complaining about Transneft's stranglehold on oil exports. The firms specifically cited Transneft's refusal to allow exports through the Latvian port of Ventspils, but three of the firms — LUKoil, Yukos, and Tyumen Oil Company — are also investors in the Murmansk plan.

The issues at the two ports are linked because Russia's growing oil companies want an open market for exports at a time when production is rising at a 9 percent rate and Russia's outlets are unable to keep pace. The result has been an oil glut on the Russian market that has driven prices as low as \$4 per barrel, while world prices have soared to more than \$30 per barrel.

In the meantime, Transneft has been doling out export allocations and pursuing an agenda that has appeared to be all its own. Analysts say it has cut off Ventspils for months in a bid to control it, while the oil companies need all the export capacity they can get.

In their letter to Kasyanov, the private companies were joined by state-owned Rosneft

in saying, “This is having a negative influence on the possibility for growth in production, and as a result, is causing significant losses to the federal budget.”

The group added, “Further restrictions in sales will unavoidably lead to more serious consequences, right up to the stoppage of wells, which in winter conditions is extremely undesirable.” Transneft has also opposed the private Murmansk project, which some analysts have suggested was intentionally designed to break Transneft’s grip.

At mid-January, 2003 it seemed that the companies had picked a perfect time to take on Transneft. Earlier this month, Russia agreed to cooperate with Saudi Arabia and the Organization of Petroleum Exporting Countries to boost output and ease a world oil squeeze, caused by strife in Venezuela and possible war with Iraq. The companies implied that Transneft would frustrate that goal.

But the timing may also have been aimed at influencing yet a third Russian policy, in the Far East, where Yukos and Transneft are also at odds. Yukos has been seeking support for a project to build a privately controlled oil pipeline from Angarsk in the Irkutsk region to China’s oil center at Daqing. Russian and Chinese leaders have embraced the \$1.7 billion plan at a series of summits in the past three years.

But Transneft has opposed it, arguing that a much longer and more costly line should be built instead to the Far East port of Nakhodka, where exports could serve Japan, South Korea, and perhaps the United States. After Japanese Prime Minister Junichiro Koizumi met with President Vladimir Putin in Moscow last week, the two countries agreed to “study the expediency” of the \$5 billion project. But they defied press predictions that a deal would be signed.

The reason is that the issue is far too complex to settle so easily. Putin will be wary of offending China after signing protocols for the Daqing pipeline, and Irkutsk does not have enough oil for both China and Japan. At the same time, Putin is likely to see the Yukos plan as another attempt to evade Transneft and state control.<sup>11)</sup>

In this connection Julia Nanaya, Director of Petroleum Finance Company, a Washington DC — based consulting firm, said: “Transneft is the Russian government’s final lever over the private oil companies. It certainly seems to have emerged as the winner in that it epitomizes Putin’s goal to have a strong center controlling the important oil resources.”

But it is unclear whether the government will support both Transneft and all of its plans. It may be one thing to keep control over Russia’s oil exports and quite another to give the pipeline monopoly so much political power. Transneft’s push for exports to Japan rather than China, as well as its maneuvers against exports through Latvia and

Murmansk, all suggest that it has been trying to drive export policy for its own purposes instead of simply doing the government's will.

The government may also find that it cannot afford too many disincentives to private investment without harming the oil companies which are Russia's main source of revenue.<sup>12)</sup>

Putin may have to make clear how far Kasyanov meant to go on behalf of Transneft by deciding where Russia's oil exports should go.

Summit meeting between Russian and Chinese leaders in Beijing failed to conclude two huge energy deals that were expected to double bilateral trade. China is said to be seeking even greater investment in Russia's oil and gas sectors, but both sides are struggling with problems caused by decades of distrust.

Russia's summit meeting with China passed 9-10 December 2002, without visible progress on two major energy deals that could bind the countries together for decades to come.<sup>13)</sup> Defying forecasts, Russian President Vladimir Putin did not conclude a long-awaited oil contract with Chinese leaders during his two-day trip to Beijing. The summit also left a huge Russian gas and pipeline project hanging, despite reports that China may take a stake in a Siberian field.

Instead, a long joint declaration signed by Putin and President Jiang Zemin touched vaguely on efforts to advance the two deals. The statement said the leaders "deem it necessary to ensure the timely implementation of available agreements concerning the Russo-Chinese oil and gas pipelines," and to coordinate projects for "lasting and stable deliveries of oil and gas." During a speech at Beijing University, Putin referred to the billions of dollars of business only in passing, lumping energy together with trade in technology and transport. According to Russia's official news agency RIA-Novosti, Putin praised the potential links, saying, "In essence, they modify the whole configuration of the economic infrastructure of Eurasia."

But the failure to complete oil and gas deals in time for the summit leaves Eurasia in the same standoff that has lasted for decades, with potentially the world's largest energy consumer and its largest producer sharing a long border with no pipelines in between. The absence of energy agreements left the summit with a short list of low-level achievements, including five accords covering extradition, tourism, taxes, and banking.

Reports were divided on expectations that the summit would seal the biggest potential pieces of business between the two countries. Few predicted that China would make a final commitment on Russia's Kovykta gas project, which would tap a mammoth field in Irkutsk Oblast at a cost of at least \$12 billion. The cost of a 3,800-kilometer pipeline to

China's northeast aging industrial region has been estimated at more than \$7 billion alone, the financial news agency Bloomberg News reported last month.

The two sides are said to be far apart on the gas-export plan, with China offering to pay Russia only as much as it sells gas for at home. But prospects were supposed to be brighter for a \$1.7 billion pipeline to carry Russian oil on a 2,400-kilometer route from Angarsk to China's main oil-and-pipeline center at Daqing. The project, which has been the subject of many accords since 1999, was pushed forward with agreements during Jiang's trip to Moscow in July 2001 and again during Prime Minister Zhu Rongji's visit in September 2001.

Deliveries of 20 million tons of Russian oil per year were expected to nearly double trade between the two countries by 2005, easing China's reliance on Middle Eastern supplies. Pipeline construction was scheduled to start next summer but may now be in doubt. Reports have again been mixed on whether Russia's Yukos and the China National Petroleum Corporation (CNPC) have settled on prices and terms of the 25-year deal.<sup>14)</sup>

In November, 2002 a Yukos source as suggesting that a contract could be signed this month. The official said, "Technical details aren't a problem; it's a matter of winning administrative approval now." This indicates that the problem existed between the governments. The official added: "We've finished the feasibility report. Both governments are scrutinizing it, and it's awaiting approval."<sup>15)</sup>

But an official from the Transneft pipeline monopoly as saying no information was prepared for Putin's visit. Russian officials gave conflicting accounts of how soon the government would complete its review.

At least three reasons are possible for the delay, and all may be involved.

First is the old issue of trust. Russia and China resisted permanent energy links through the Cold War decades, preferring small rail shipments of oil to interdependence. Analysts find the logic of joining east Siberian resources to China's markets irresistible because of the high cost of selling them anywhere else.

But China has sought the resources as a last option only after investing in projects around the world, raising Russian suspicions. Even faced with the threat of a break in Middle Eastern oil supplies, China has been slow.

A second possible reason is that China wants more than Russia has offered to drop the decades of distrust. This week, the RUSIA consortium for the Kovykta gas project said CNPC subsidiary PetroChina might buy a stake in the company to move the deal ahead.

Russia's business daily "Vedomosti" also said the CNPC will enter the bidding for a

75 percent share in Russia's state-owned Slavneft oil company, the largest privatization sale in its history. The two plans suggest that China needs deep integration with Russia to overcome its energy-dependence concerns.

A third possible reason is the friction over the World Trade Organization. China's new membership has given it the power to keep Russia out. In an analysis before the summit, RIA-Novosti disclosed one source of tension between the two countries during WTO negotiations. Beijing has demanded "the free flow of the Chinese workforce into Russia," the news agency said. It added that "the conditions put forward by China...were an unpleasant surprise for Moscow." Putin may have hinted at the dispute in telling Jiang that relations are "practically free of annoying issues."

The demand plays into Russia's worst fear of Chinese migration into sparsely populated Siberia, a touchy topic when cross-border investment in resources is on the line. Big pipelines would create jobs that Chinese workers could fill. Each cause for distrust may be separate, but the two sides may have to cope with all three before they agree on oil and gas deals.<sup>16)</sup>

There is also one more important reason: environmental. Plans for a Russian oil pipeline to China have stalled following objections to the risk for sensitive areas near Lake Baikal. The problem is similar to famous Georgian Borjomi mineral water area—is one of many that have slowed energy cooperation between the two neighbors. But it may also reflect the rising concern for the environment in Russia as the country promotes its energy exports. The plan has raised concerns for nearby Lake baikal, the world's deepest lake, with one-fifth of all the fresh water on earth. Rusenergo.com quoted Vladimir Belogolovov of the Buryatia regional association for Lake Baikal as saying that Yukos has proposed three alternate routes. Two cut through Tunkinskii Park. The third would run 20 kilometers from Baikal so that oil could reach the lake within 30 minutes in the event of a spill, he said. Thus, the resistance to pipeline plans in Irkutsk comes from within Russia itself, perhaps signaling that the country's environmental movement will play a more critical role. The coming months may prove whether the drive for energy exports is more powerful or whether Russia will pay more to promote exports and the environment at the same time.

So, natural gas and oil in Siberian Far East is very important for Japan's energy policy. For Japan's energy policy we consider three points important:

1. stability of energy supply;
2. low environmental cost;
3. high level of security.

Judging from these points, we think that Russian oil and natural gas has great importance in the near future, because Japan need to escape from dependence of Middle East

oil. In addition, transportation cost is not high, because it is about 3000–4000 km from Siberian Far East to Japan.

### **Research impact: the relevant of the project to contemporary policy issues**

The findings of this study are very directly relevant to the academic and political communities as well as energy corporations, governments and international institutions seeking to promote the use of the Caspian and the East Siberian energy and transport resources, who want to understand under what conditions Caspian and Northeast Asian national governments, regional and local political elites can facilitate or block development projects.

This study will look for patterns of political response which may share common features across different Caspian and Far East countries to mention varieties of response across different regions. My research causes a discussion about: will be able Russia and his Eastern neighbor countries and communities to work together to create a truly successful and long-term cooperation in Caspian and Northeast Asia using oil, transit and black caviar?

### **Notes**

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1) David Lane, *The Political Economy of Russian Oil*. Lanham: Rowman and Littlefield Publishers, 1999. Full-length scholarly treatments of Russian Oil and Geopolitics in terms of serious academic studies remain rare. For a bibliography on this issue, see Arbakhan Magomedov, "Kaspiiskaya neft i Rossiiskie regiony," *Acta Slavica Iaponica*, Tomus 19 (2002, Sapporo). My bibliography is focused primarily, but not exclusively, on the Caspian Oil and Transit Policy. Another recent bibliography—(*The Security of the Caspian Sea Region*. Ed. by Gennady Chufirin. SIPRI, Oxford Univ. Press, 2001; Vagif Guseinov, *Kaspiiskaya neft*:

- economica i geopolitica. M: OLMA-PRESS, 2002) provides a more complete listing of the recent works on Oil-Geopolitics topic produced in Russia and Western countries.
- 2) Energy Superbowl, *Strategic Politics and the Persian Gulf and Caspian Basin* (Washington DC: Nixon Center for Peace and Freedom, 1997), p.14.
  - 3) See more detail: Zanny Minton Beddoes, "A Caspian Gamble," *The Economist* (February 7th, 1998), pp. 3-18.
  - 4) Questions for further discussion see: "Succession and Long-Term Stability in the Caspian Region." (Executive Memorandum, 1999, August 12). This document was produced by two dozen specialists from the academic, policy and business community gathered at the Kennedy School of Government at Harvard University to discuss the political and economic prospects of the countries located in the Caspian Basin and the impact of US policy on that region.
  - 5) I have suggested this ideas in my recent paper: Arbakhan Magomedov, "Le petrole de la Caspienne: enjeu politique au Sud de la Russie," *La Revue Tocqueville* (de l'Universite de Toronto), 2002, #2, pp. 57-79.
  - 6) See more details: Vagif Guseinov, *Kaspiiskaya neft: ekonomika i geopolitica*. M: Olma-Press, 2002; Kamaludin Gadzhiev, *Geopolitika Kavkaza*. M: Mezhdunarodnye otnosheniya, 2001.
  - 7) See also on these regions: Arbakhan Magomedov, "Oil and Caspian Pipeline Consortium as Instruments of Astrakhan and Kalmyk Leaders," *Central Asia and the Caucasus* (Luleo) #2, 2001. pp. 87-97.
  - 8) Oxford Analytica. *East Europe Daily Brief*. February 8, 2001; Arbakhan Magomedov, "Tengiz-Novorossiysk Petroleum Pipeline and Russian Regional Elites," *Monthly Bulletin on Trade With Russia and East Europe* (Tokyo) December, 2000.
  - 9) I used an analysis from the report: "Economic Development and the Environment" on the Sakhalin Offshore Oil and Gas Fields-2. (Slavic Research Center, Hokkaido University) 1999. <http://src-h.slav.hokudai.ac.jp/index-e.html>
  - 10) Ibid.
  - 11) Michael Lelyveld, Russia: Pipeline Projects to Remain Under State Control. <http://www.rferl.org>
  - 12) Ibid.
  - 13) RFE/RL (Boston), 4 December, 2002.
  - 14) Michael Lelyveld, "Russia: China Summit Ends Without Ratification of Energy Treaties". <http://www.rferl.org>
  - 15) Ibid. "Reuters" (November, 2002).
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**Key words** oil pipeline Caspian Sea Far East geopolitics Caucasus political elite