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## RUSSIA'S ENERGY RELATIONS WITH ITS CASPIAN NEIGHBORS

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## Analysis

# The Energy Dimension of Azerbaijani–Russian Relations: Maneuvering for Nagorno-Karabakh

By Heidi Kjærnet, Oslo

## Abstract

Russian–Azerbaijani relations in the post-Soviet period have mainly been a function of two factors: The continuing non-solution of the Nagorno-Karabakh question, and the export of Azerbaijan’s petroleum resources. With the 2007 agreement to supply gas to Georgia and the December 2008 take-over of Georgia’s gas distribution networks, Azerbaijan is assuming the role of Georgia’s energy patron. This new function has important implications for both the Karabakh conflict and Azeri petroleum exports.

## Azerbaijani Foreign Policy

When Azerbaijan declared its independence on 30 August 1991, it faced the choice of bandwagoning with Russia as the power center of the former Soviet Union, or balancing its relations with Russia and other major powers, notably the USA and the EU countries. After a short-lived nationalist government that championed an anti-Russian foreign policy line, the Aliyev dynasty has since 1993 conducted a more pragmatic foreign policy, seeking to tie the interests of foreign powers to Azerbaijan while managing to gain independence from Russia without needlessly antagonizing the Kremlin. The greatest asset at Azerbaijan’s disposal in terms of engaging European countries and the USA has been these actors’ interest in its petroleum resources. The main foreign policy challenge has been the conflict with neighboring Armenia for control over Nagorno-Karabakh.

## Azerbaijan’s Perspectives on Russia’s Role in Nagorno-Karabakh

Azerbaijan views Russia as a party to the Karabakh conflict and the Russian co-chair in the OSCE Minsk Group, tasked with finding a negotiated solution to the conflict, as pro-Armenian. This is hardly surprising, as Russia is Armenia’s patron in international relations, and the two countries in 1997 signed a treaty ensuring mutual military assistance if either country should be attacked. Azerbaijani skepticism towards Russian motives has contributed to rendering the peace negotiation process difficult and created problems for bilateral relations between Azerbaijan and Russia. The belief that the conflict will remain unsolved as long as the Russians see it in their interest to use Nagorno-Karabakh to “divide and rule” the South Caucasus is widespread in Azerbaijan, resulting in an uncompromising stance which further complicates any resolution of the conflict.

Azerbaijan has since 2005 experienced considerable petroleum-driven economic growth, and has used its new wealth to strengthen its efforts to gain the return of Karabakh. The general Azerbaijani line is that the conflict should be solved peacefully, but that war may be necessary if all else fails. Parallel to statements on war as the last resort for solving the Nagorno-Karabakh conflict, President Ilham Aliyev has also pledged that the Azerbaijani military budget will reach the size of the Armenian state budget. As threats of war were accompanied by a dramatic increase in military spending, it seemed that Azerbaijan was using its petroleum-fuelled economic strength to gain clout at the negotiating table.

However, the events of August 2008 sent a strong signal to all involved in the South Caucasus security complex. First of all, they were reminded how destructive war can be. For the Azerbaijani side, the risks involved in challenging Russia’s allies militarily became evident. True, Nagorno-Karabakh (unlike South Ossetia and Abkhazia) does not have a common border with Russia; there are no Russian peacekeepers there, and President Aliyev probably would not have miscalculated as badly as Georgian President Mikhail Saakashvili, the prospect of waging a “short and victorious war” to take back Karabakh must have lost some of its attraction. The Georgian–Russian crisis may also have been decisive in forging the November 2008 Armenian–Azerbaijani joint declaration, the first of its kind since the ceasefire agreement of 1994. The declaration involved a minor concession from the Azerbaijani side – agreeing to confidence-building measures was unprecedented and represented a small step away from the uncompromising line Azerbaijan had previously adhered to in the negotiations. Prior to this, building confidence with “an occupying force” had been unthinkable for Azerbaijan. While the declaration is a positive step, in a context where setbacks are all too common, confidence-build-

ing measures are not a particularly costly concession for Azerbaijan to make. The credibility of the confidence building has also been seriously undermined by President Aliyev's resumption of belligerent statements in his 2009 New Year's address.

The events of August 2008 have also proven a point that the Georgian side has been eager to make to the international community, one that has its parallel in the Azerbaijani view on Russia's role in the mediation of the Nagorno-Karabakh conflict. That is the conviction that the Russians are not, and should not be perceived as, neutral in the mediation of the territorial conflicts in the South Caucasus. The bias is reflected in Russia's unilateral recognition of Abkhazia and South Ossetia as independent states. Despite the international criticism of Russia's policies, nothing has changed in the actual negotiation setup.

### **Russian Foreign Energy Policy**

During the post-Soviet period, the Russian authorities have shown economic muscle in several ways, but it is particularly within the energy sector that they have employed market power to reach strategic aims. The current energy dependence of several former Soviet republics is partly a heritage from the Soviet period, partly a consequence of Russia's continuing subsidizing of energy for its neighbors during the post-Soviet period, and partly a result of strategic Russian acquisitions after 1991. The debates about foreign energy policies notwithstanding, it seems clear that Russia's energy trade remains entangled in multiple and complex ways with foreign policy issues.

The fact that several former Soviet republics are completely dependent on energy supplies from Russia has facilitated Moscow's ability to maintain economic and political leverage in what it sees as Russia's legitimate sphere of influence. As a major oil and gas producer, Azerbaijan (in contrast to Armenia, Georgia, Ukraine and Belarus) has been a net energy exporter since the break-up of the Soviet Union. Particularly since 2004, Azerbaijan has become increasingly independent of Russian energy imports. Also where former Soviet republics are net exporters of energy, Russia has taken advantage of the market power that follows from its control over important transit routes. For example, until a few years ago, Azerbaijan and Kazakhstan were dependent on energy transport through Russian pipelines, giving them a poor negotiating position over transit fees and prices. In terms of energy exports, Azerbaijan was dependent on the Russian pipeline network for its oil and gas exports until the BTC oil pipeline from Baku

via Tbilisi to Ceyhan went online in 2005, breaking Russia's monopoly on the transit of Caspian petroleum. The completion of the South Caucasus Pipeline in 2006, allowing for the export of Azerbaijani gas independently of Russia, further strengthened Azerbaijan's energy independence. In the first instance, this means that Azerbaijan need not defer to Russian pressure, whether in the form of a transit blockade or cutting off natural gas exports to Azerbaijan. For Russia, this means it is deprived of the energy tool in its relations with Azerbaijan and must rely on other methods to keep Azerbaijan within its fold.

### **Azerbaijan as Georgia's New Energy Patron**

An analysis of Georgia's energy imports in recent years illustrates the perils of depending on Russia for energy, the Azerbaijani ambition to become a regional leader, and its will to use its energy resources and wealth towards this end. In 2006, Gazprom demanded a more than a doubling in the price of its natural gas (from USD 110 to 235 per 1000 bcm) from both Georgia and Azerbaijan, while Armenia managed to negotiate a continuation of the previous preferential rate of USD 110. Even before the proposed price hike, Georgia had sought unsuccessfully to negotiate an increase in the amount of additional Shah Deniz gas which it, as a transit country, could purchase from Baku. While Georgia was dependent on foreign gas supplies, Azerbaijan had the opportunity to choose between continued imports from Russia for domestic consumption and the export of its own Shah Deniz gas to Western markets, or meeting its own demands with the Shah Deniz gas and postponing the export of the gas. Azerbaijan initially planned to continue importing Russian gas to meet high domestic demands, but – possibly motivated by anger that Armenia still received the preferential rate – chose to intensify its gas production, so as to be able to stop importing Russian gas. The decision to cut Russian gas imports and to provide Georgia with natural gas at only USD 120 per 1000 bcm did not come without a price tag: Azerbaijan lost possible revenues from gas exports to Turkish markets. One could perhaps go so far as to argue that Azerbaijan has undertaken the cost of subsidizing Georgia, a task it has taken over from Russia, whose relations with Georgia have spiraled steadily downwards since 1988.

In a move that makes the Azerbaijani use of its energy wealth look even more like the Russian take-over of Armenian energy assets, the Azerbaijani state oil and gas company SOCAR purchased significant parts of the Georgian gas distribution network at the end of 2008,

and is contractually committed to supplying Georgia with natural gas for five years at a price that enables Georgia to maintain its current gas tariff for households unchanged. The combination of this asset acquisition with Azerbaijan's subsidies for Georgia raises the question of what political influence the country has gained in Georgia. Baku certainly has new possibilities available now that it is no longer dependent on Russia for transit. Also, Azerbaijan has showed both skill and caution in its own use of the energy card: While supporting Georgia through a difficult period in Georgian–Russian relations, Azerbaijan has managed to increase its regional strength by taking over the role as Georgia's energy patron. At the same time, striking a conciliatory tone and making its moves in Georgia with great caution and discretion, Azerbaijan has also largely managed to avoid antagonizing Russia.

### Prospects for the Trans-Caspian Pipeline

At present, discussions concerning the possible construction of a Trans-Caspian Pipeline that would provide the BTC with Central Asian oil after the expected peak in Azerbaijani production represent a possible next standoff in Azerbaijani–Russian energy relations. Since the construction of the BTC pipeline, Kazakhstan and Azerbaijan have been negotiating the terms of transporting Kazakhstani oil. Feeding Kazakhstani oil into the pipeline would increase BTC profitability, as reserves in the Azerbaijani oil field Azeri-Chirag-Guneshli are projected to peak in 2010. Kazakhstan's 2006 pledge to provide 53 million barrels a year, with an eventual staged increase to 175 million barrels a year, is therefore vital to Azerbaijan as a transit country and to the BTC investors. However, as tanker traffic across the Caspian Sea since late 2008 has started transporting Kazakh oil to Baku ports for further export through the BTC, a costly pipeline no longer seems to be the only way to increase the volumes exported through the BTC. In fact, it seems that tanker traffic may give key actors on both the Kazakh and Azerbaijani sides a vested interest in maintaining such traffic, as the crony capitalism in both countries is shaping the politico-economic environment in which the future of the Caspian energy transport system is to be decided.

### The Balance in Azerbaijani–Russian Relations

Russia is largely deprived of energy leverage vis-à-vis Azerbaijan, but still holds several other cards. The size-

able Azerbaijani diaspora working in Russia, whose members provide significant remittances, may become subject to Russian pressure, just as the Georgian one was in 2006. Also, Moscow's status as a Minsk Group co-chair means that it continues to play a key role in the policy area of greatest concern to Azerbaijan, thus reducing Baku's leeway to ignore Russian demands. These factors, however, do not change the fact that Azerbaijan is independent of Russia for the transport of its petroleum resources.

### Conclusions

Azerbaijan's energy deals with Georgia since 2006 have given the latter a new energy patron. Due to its energy independence, Azerbaijan was able to do this without suffering any reprisals from the Russian side. It remains to be seen how Azerbaijan will employ the political leverage obtained through the energy deals with Georgia. Here we should note that Armenia is dependent on gas imports from Russia supplied through pipelines on Georgian territory. Whether or not this is possible at present through the Azerbaijani control of parts of the Georgian gas distribution networks, Azerbaijan may, through future asset acquisitions in Georgia, be in a position to block the transit of Russian gas to Armenia. It does not take much imagination to picture this as a way for Azerbaijan to put pressure on Armenia in the negotiations over Nagorno-Karabakh. Azerbaijan, which is likely unable to compete with Russia on military terms, might be able to use its energy wealth to gain an upper hand with regard to Nagorno-Karabakh.

Despite Azerbaijan's relative success in not antagonizing Russia until now, there is still a significant risk that Azerbaijan's energy interests and ambitions may collide with Russian ambitions and interests in the future. The most imminent risk is a controversy over the transport of Central Asian oil and gas across the Caspian Sea to Azerbaijan. However, the global credit crunch and falling commodity prices could work against the construction of the Trans-Caspian Pipeline – although these factors are just as likely to undermine Russia's competing South Stream project. If both are weakened, the consequence of the financial crisis will be to delay the geopolitical race surrounding Azerbaijan. If the financial crisis proves short-lived, both projects may stay on the table, and the game will go on.

*Please see overleaf for information about the author, further reading, and a table.*

*About the author*

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*Further reading*

- Farid Guliyev and Nozima Akhrarkhodjaeva, “Transportation of Kazakhstani oil via the Caspian Sea (TKOC). Arrangements, actors and interests”, RUSSCASP Working paper, 18 November 2008.
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**Table 1: Azerbaijan: Energy and the Economy  
(In Million Nominal USD unless otherwise indicated)**

|                             | 2003  | 2004  | 2005  | 2006  | 2007   | 2010   |
|-----------------------------|-------|-------|-------|-------|--------|--------|
| Oil Production <sup>1</sup> | 320   | 319   | 441   | 648   | 860    | 1.300  |
| Oil Exports <sup>1</sup>    | 215   | 204   | 314   | 521   | 721    |        |
| FDI <sup>2</sup>            | 3.285 | 3.556 | 1.680 | -219  | -4.750 | 476    |
| Oil Sector FDI <sup>2</sup> | 3.246 | 3.461 | 1.459 | -573  | -5.198 | 366    |
| Oil Sector Revenue          | 886   | 946   | 1.337 | 2.921 | 5.272  | 19.417 |
| as share of total rev (%)   | 42%   | 38%   | 39%   | 51%   | 59%    | -      |
| as share of GDP (%)         | -     | -     | 9.8%  | 15.0% | 19.7%  | 43.3%  |
| Oil Fund Assets             | 816   | 972   | 1.394 | 1.936 | 3.093  | 36.387 |

<sup>1</sup> Thousand barrels per day, <sup>2</sup> Foreign Direct Investment

Oil Production Source: US Energy Information Administration, *Short Term Energy Outlook*

Other indicators from IMF, *Article IV Consultation – Staff Report, No. 07/191. June 2007.*

Retrieved from the U.S. Energy Information Administration:

<http://www.eia.doe.gov/cabs/Azerbaijan/pdf.pdf> (accessed 10 February 2009).

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## Analysis

### Russia and Kazakhstan: A Special Relationship

By Stina Torjesen, Oslo

#### Abstract

Kazakhstan and Russia have maintained close relations since Kazakhstan's independence in 1991. Both domestic and inter-state factors underpin this phenomenon. Still, despite the close and constructive relations, Kazakhstan has retained considerable room for maneuver and has deviated from the Russian agenda in the region on several important points, such as energy transportation, and – perhaps more surprisingly – by agreeing to military cooperation with NATO.

In January 2009, the new US Secretary of State Hillary Rodham Clinton chose her first meeting with a foreign representative to be with David Miliband of the UK – the USA's closest ally. Similarly, Dmitry Medvedev made his first trip abroad as president of the Russian Federation in May 2008 to Kazakhstan. President Nursultan Nazarbaev is said to have greeted his Russian counterpart by noting that the two countries' bilateral ties were tighter than those of any other two states on earth. Medvedev, for his part, stressed that it was no accident that he had chosen Kazakhstan as his first destination, adding that "Russia values the genuinely friendly and mutually advantageous relations with Kazakhstan, our strategic partner."

But how close are Kazakhstan and Russia really, and how is their relationship best understood? Kazakhstan has chosen to establish a close and cooperative relationship with Russia, but it has also, while working within this framework, proactively and assertively defended its own national interests vis-à-vis Russia. In some cases, including several energy projects, Kazakhstan has clearly been at odds with its northern neighbor. In others, such as Russia's effort to construct a multilateral architecture for the Eurasian region, Kazakhstan has offered tangible and constructive support. Considerable diplomatic and strategic skills have enabled Kazakhstan to maintain and assure Russia of a "special relationship" between the two countries, all the while as it has adhered to an overall concept of a "multi-vector" foreign policy, where cooperation has been sought with all key outside players in the region. Kazakhstan has "band-wagoned" with Russia, but while doing so, has also managed to maintain considerable room for maneuver in its foreign affairs.

#### Energy

Energy issues lie at the heart of the Russia–Kazakhstan relationship. Two aspects are particularly important: transit of Kazakhstan's oil and gas through Russia

and the two countries' joint development of three oil fields in the Caspian Sea. In 2007, Kazakhstan exported more than 60 million tons of oil through Russia – making it by far the most important transit country for Kazakhstani oil. This transit takes place under the auspices of a long-term agreement on energy transit between the two countries, signed in 2002.

Pending an overall settlement of the legal issues surrounding the Caspian Sea, Kazakhstan and Russia concluded their own bilateral agreement delineating their sectors. Especially important here was the decision to jointly develop three oil fields in the north-western part of the Caspian Sea: "Kurmangazy," "Tsentralnoe" and "Khalynskoe." This pragmatic and mutually beneficial solution to the challenges of border delineation and the division of the income from the oil fields in the disputed sectors is indicative of the trust and dialogue that underpin much of the relationship between Russia and Kazakhstan.

However, it is also in the sphere of energy that one finds the strongest divergence between the two countries. Central issues here are the routes for the remaining Kazakhstani oil exports, and the extent to which Kazakhstan's use of Azerbaijan as an additional transit country (through the Baku–Tbilisi–Ceyhan pipeline, BTC) is eroding Russia's position in the region. Kazakhstan's support for the BTC, even if moderate and with little firm commitment, was crucial in the early stages of the BTC project. Some doubted whether BTC would be economically viable if it catered only to Azerbaijani oil – but with the prospect of additional Kazakhstani oil entering the pipeline, support for the BTC project improved. Once the pipeline was completed, Kazakhstan's commitment has further increased. The BTC provides an alternative outlet for oil from Central Asia and the Caucasus that bypasses Russia. This reduces, albeit only moderately, the soft power bestowed on Russia vis-à-vis Europe due to Russia's role as major energy provider. The alternative western route

also reduces Russia's political leverage over the energy-rich Caspian states, since their dependence on Russian transit is reduced. In supporting the BTC, Kazakhstan asserted its independence from Russia and solidified its "multi-vector" foreign policy line. Russia has sought to receive as much of Kazakhstani transit oil as possible, but Kazakhstan's BTC decision clearly thwarted these wishes. Kazakhstan was similarly assertive when it entered into an energy partnership with China (construction of a Kazakhstan–China pipeline and Chinese foreign direct investment in the energy sector) and agreeing to oil swaps with Iran, although these involved lower volumes and were less important.

One hitch in the transit saga between Kazakhstan and Russia concerns the difficulties associated with the Caspian Pipeline Consortium (CPC) pipeline, which stretches from the Tengiz oil field in Kazakhstan to Novorossiysk on the Russian Black Sea coast. With its capacity to ship 700,000 barrels per day, this is a vital outlet for Kazakhstani oil. Kazakhstan's government, alongside foreign oil companies and shareholders in the pipeline, have since the completion of phase 1 in 2001 sought to arrange for a near doubling of the pipeline's capacity, to 1.3 million barrels per day. However, Russia stalled these efforts until 17 December 2008 when, finally, a CPC expansion was agreed upon by the CPC shareholders, the Ministry of Energy of the Russian Federation and the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan. According to the agreement the CPC expansion is expected to be completed by 2013. The CPC is the only transit pipeline in Russia not owned by the Russian state company Transneft, and the difficulties caused by Russia apparently stem from the Kremlin's attempt to consolidate control over the country's oil transport infrastructure. Regardless of Russia's possible motives for slowing down CPC expansion, the case has served to remind Kazakhstan of the benefits associated with multiple export options and routes.

### **A Multilateral Architecture for the Eurasian Region**

While Kazakhstan has on several occasions taken an independent stance from that of Russia in the energy sector, on issues related to regional integration and the development of multilateral cooperation, the two countries have defined their interests in very similar ways. Kazakhstan has been an eager supporter of Russian-led initiatives to build new mechanisms for cooperation in such spheres as trade, migration and security. Faced with a malfunctioning Commonwealth of Independent

States, Russia – spurred by suggestions from President Nazarbaev – proceeded with developing the Eurasian Economic Community (EEC) for the more integration-inclined and Russia-loyal states of the CIS. Kazakhstan has supported Russia's attempts in this EEC to harmonize external customs tariffs (especially concerning Belarus, Kazakhstan and Russia) and to maintain low tariffs among EEC members.

The Collective Security Treaty Organization (CSTO) complements the EEC in the security sphere (see below). Another key multilateral forum in the region is the Shanghai Cooperation Organization (SCO). It incorporates both security and economy-related issues, and has, in many ways, become an arena for coordinating Russian and Chinese engagement in the region.

Kazakhstan has been a vocal supporter of efforts to enhance the multilateral architecture for interstate cooperation in the region. Unsurprisingly, these efforts reflect its own national interests: as a comparatively small state, Kazakhstan has an incentive to engage with the greater powers in the region in regular and rule-bound settings. Its diplomatic support to Russia's multilateral efforts is also a relatively low-cost way of signaling loyalty and allegiance on an issue of great importance to Russia. Russia's multilateral drive in Eurasia is motivated not only by a desire to solve common challenges facing the countries in the region, but also by aspirations for great-power status in global affairs – and the Russians see pre-eminence and relevance in regional affairs, manifested by leadership in multilateral organizations, as a precondition for this.

### **Security, Space and Nuclear Energy Cooperation**

As a member of the CSTO, Kazakhstan gets preferential terms in its weapons purchases from Russia. This advantage forms part of a larger bilateral cooperation package between the two countries on military education, arms production and border control. The two countries also participate in the activities of the CSTO, including contributing to a CSTO Collective Rapid-Reaction Force. Despite the close military relations between Kazakhstan and Russia, Kazakhstan has not ruled out cooperation with other countries and organizations. It joined NATO's Partnership for Peace Program in 1994 and works with NATO structures and allies (the USA in particular) through an Individual Partnership Action Plan (IPAP).

Kazakhstan and Russia have been stepping up their collaboration on civilian nuclear energy. The two also cooperate extensively on the Baikonur space launch fa-

cility, which Russia leases from Kazakhstan on a long-term contract.

The Kazakhstan–Russia relationship is shaped to a large extent by geography and history. The common Soviet and (partly) Tsarist past has created important social, infrastructural and business links between the two countries, while the long and (largely open) border ensures that Kazakhstan and Russia are tightly interdependent in security terms. Domestic political aspects, however, also matter for the type of relations that the two countries enjoy. Two issues are particularly relevant in this respect: Kazakhstan’s large ethnic Russian minority, and similarities in regime type.

Approximately 25 per cent of Kazakhstan’s population are ethnic Russians. Most of the ethnic Russian population lives in northern Kazakhstan near the Russian border. In the early years after independence in 1991, a central concern among the Kazakhstani elite was the possibility that the northern regions might want to secede from Kazakhstan and join the Russian Federation. This fear provided an additional rationale in the 1990s for Kazakhstan’s choice of aligning closely with Russia – it was part of an effort to cater to the wishes of the ethnic Russian population and mitigate its potential concerns, simultaneously removing incentives for the Kremlin to try to woo the ethnic Russian population in northern Kazakhstan.

More recently, support from Russia to the incumbent regime in Kazakhstan has grown in importance. Faced with growing political activism in Kazakhstan in 2001–2002 and alarmed by the subsequent “color

revolutions” in Georgia and Ukraine, Kazakhstan’s political leadership sought to “manage” the political process in the run-up to elections in 2004 and 2005 as far as possible. The Russian political leadership shared the Kazakhstani leadership’s concern over the prospect of further regime change in the post-Soviet area, which was interpreted both as a US- and an EU-induced plot. Murat Laumulin and Mukhtar Shaken, two prominent Kazakhstani analysts, observed Russia to be acting in the following way:

In 2004 and 2005 Russia threw its political weight into stabilization of the situation around Kazakhstan at the far from simple time of the parliamentary and presidential elections. By demonstrating his support to the president of Kazakhstan on the eve of the elections, President Putin attracted the voters of the Russian-speaking population. Moscow used its own channels to inform the most active geopolitical actors in Central Asia that Russia would never permit a repetition of the Ukrainian alternative.

Russia is likely to have offered tangible support – or at least considerable reassurance – to the Kazakhstani leadership as it faced two difficult elections. This contrasted sharply with how the USA and European countries were perceived to be acting. Their democratization agendas were seen as unwelcome efforts to install pro-western forces, threatening to undermine the incumbent regimes. Russia’s ability to support the Kazakhstani leadership when it faced domestic challenges was seen as a vital asset, which in turn further solidified the close relations between the two countries.

#### *About the author*

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#### *Further reading*

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Murat Laumulin and Mukhtar Shaken, “Kazakhstan and Russia: Relations as Part of Russia’s Foreign Policy Strategy,” *Central Asia and the Caucasus* 14, no. 1 (2008): 112–124.

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## Analysis

# Natural Gas and Russia–Turkmenistan Relations

By Indra Overland, Oslo/Tromsø

## Abstract

On 1 January 2009, Russia began paying “market prices” for natural gas from Turkmenistan. Although the exact price to be paid is not known and “market prices” is a fuzzy concept, this development comes after years of intractable price quarrels and represents a clear break with the past. This article examines the international context of this turnaround in energy relations between the two countries, as well as the linkages to the most recent Russian–Ukrainian gas crisis, which, not incidentally, also started on 1 January 2009. The article argues that whereas Turkmenistan has remained closely tied to Russia in the energy sector, its broader foreign policy has consistently sought to remove itself from Moscow’s sphere of interest. Thus Russian–Turkmenistan relations combine close cooperation and detachment to a degree that is almost paradoxical.

## Not-So-Great Game

Turkmenistan is Central Asia’s biggest natural gas producer, with an annual output of 72 billion cubic meters (bcm) in 2007. Due to several factors – its small five-million population, southern latitude, widespread poverty, authoritarian regime and lack of industrialization – Turkmenistan can export as much as 75 per cent of its gas. By comparison, in 2007 Uzbekistan produced 65 bcm, but with a population of 27 million and a stronger industrial sector, only 15 bcm remained for export. Kazakhstan, with a population of 15 million, produced only 13 bcm, of which it consumed 10.6 domestically. Thus Turkmenistan’s status as Central Asia’s pre-eminent natural gas exporter is unlikely to be challenged any time soon. Most of Turkmenistan’s gas is exported via Russia, and quarrels over the price of this gas have occurred at least biannually since the collapse of the USSR.

Turkmenistan’s natural gas exports to and via Russia were for many years complicated by the involvement of several different private-company intermediaries, the inclusion of barter in pricing arrangements and the complexity of the three-way relationship involving Russia, Turkmenistan and Ukraine, which is the end-user of most of Turkmenistan’s gas exports.

So great have the opportunities for profit been in this tangle that the intermediary company Itera, founded and run by people originally from Turkmenistan, has become one of the largest private companies in Russia.

## Multi-Vector Pipelines

Turkmenistan’s former president Saparmurat Niyazov chafed whenever Russia exerted heavy pressure on him to keep prices down. When the terms became too frustrating for the reclusive dictator, Niyazov would start

considering, and loudly discussing, alternative pipeline options that might enable him to bypass Russia’s transit monopoly. After Niyazov’s death at the end of 2006 and the rise to power of Gurbanguly Berdymukhamedov, this tendency has intensified. A map of prospective export pipelines from Turkmenistan resembles the country’s multi-vector foreign policy: the potential pipelines point in all directions. Several different pipeline options have been mooted:

- Western, Azerbaijani, Georgian and Turkish actors promote the construction of the Trans-Caspian Gas Pipeline in order to give Turkmenistan the ability to sell gas to the West independently of Russia. The pipeline would cross the Caspian Sea to Azerbaijan, where it would follow the route of the Baku-Tbilisi-Erzurum pipeline and be extended onwards to Europe. During 2007 and 2008 a blitz of Western actors visited Turkmenistan to promote this project as well as to gain access to gas fields that might feed into the pipeline. In the course of the nine months after the death of Niyazov in December 2006, Turkmenistan received 283 official delegations (and Berdymukhamedov carried out nine state visits abroad). The West is so interested in Turkmenistan’s gas that the country’s profound authoritarianism does not seem to be a significant obstacle. However, concrete results have been few. Instead, Turkmenistan has continued negotiations with Russia and Kazakhstan on re-building the Pri-Kaspiskiy pipeline, which would reinforce Russia’s control over Turkmenistan’s exports. However, actual work on this project has not started either.
- Unocal (merged with Chevron in 2005) leads an international consortium that has promoted the TAPI pipeline, intended to go from Turkmenistan via Afghanistan to Pakistan and possibly India. Until

around 2007 this option looked increasingly sensible from a Turkmenistani perspective, as it largely dodged the question of Russian–Western rivalry in Central Asia and did not threaten to undermine Gazprom’s control over exports to Europe. The deteriorating situation in Afghanistan has, however, made it much less likely that TAPI will be built in the foreseeable future – unless, that is, the NATO countries and international financial institutions should suddenly be willing to take on the entire financial risk of the project.

- In 1994 Turkmenistan and Iran agreed to build a Turkmenistan–Iran–Turkey–Bulgaria pipeline with an annual capacity of 28 bcm. This, and several subsidiary options for routing onwards from Iran and Turkey, have never been realized, due to the active American resistance. Instead, the USD 190 million Korpeje–Kord–Kuy pipeline from Turkmenistan to Iran was completed in 1997 and includes a 25-year contract for 5–6 bcm per year. Turkmenistan was thus the first, and for several years only, Central Asian natural gas exporter to build a pipeline that circumvented Russia. On the other hand, the small volumes involved and the fact that the gas goes to Iran’s isolated north-eastern market means that it does not pose a threat to Russia.
- The pipeline from Turkmenistan to China currently nearing completion is the longest in the world. It spans 7,000 km, of which 188 are in Turkmenistan, 530 in Uzbekistan, 1,300 in Kazakhstan and over 4,500 in China. With an annual capacity of 30 bcm, this project is more significant than the only other post-Soviet pipeline built by Turkmenistan, the Korpeje–Kord–Kuy pipeline to Iran discussed above.

### Russia Offers to Pay More

Perhaps as a result of the looming Turkmenistan–China pipeline and the threat of other pipelines, Russia unexpectedly changed tack during 2007 and 2008. It went from using its virtual transit monopoly on Turkmen gas for the extraction of maximum profits, to a more conciliatory approach in which it offers market prices for Turkmenistani gas. The aim no longer seems to be to maximise Russian profit on Turkmenistan’s exports. Now the grand objective is rather to undermine Western efforts to cobble together enough supply to make the Trans-Caspian Gas Pipeline viable. In this picture, Turkmenistani exports to China are far from the worst thing that could happen to Russia, because they will further weaken the resource base for the Trans-

Caspian Gas Pipeline while also removing incentives for Turkmenistani “adventurism” with Western partners, since another stable source of income is already secured in China. Why should Turkmenistan take the risk of irking Russia by building a trans-Caspian gas pipeline directly to the West when China (and Russia through its increasingly generous pricing) already provides the country with a handsome income?

In addition, both China and Russia have a strong track record of refraining from public criticism of authoritarianism in countries such as Turkmenistan. Russia is not only uncritical about the domestic political situation in Turkmenistan, it has also largely refrained from speaking up for the ethnic Russian minority in the country. Since this minority, numbering about 200,000, has been subject to discriminatory measures far more severe than those inflicted upon the ethnic Russian population in the Baltic states (which received extensive attention from Moscow), it is tempting to interpret this as a consequence of Russia’s interest in Turkmenistani natural gas. It also sends a clear signal to Turkmenistan: as long as you sell your natural gas to us, rather than directly to Western actors, we will not intervene in your domestic affairs at all. Unlike countries such as Ukraine, Georgia and Kazakhstan, Turkmenistan does not share a border with Russia and is also therefore less worried about Russian interventionism.

From the perspective of an authoritarian regime such as that in Ashgabat, clearly both Russia and China have something to offer as energy partners. In this perspective, Turkmenistan’s continued reliance on Russia and gradual diversification to China make sense. On the other hand, Turkmenistan also clearly keeps its authoritarian and semi-authoritarian partners at arm’s length, not least through its accentuated neutral foreign policy. Turkmenistan joined the Non-Aligned States in 1995 and thus achieved recognition by the UN Assembly of its neutrality, seeing this as a means of removing itself from the influence of competing great powers – including Russia. In an overview of the number of treaties signed between the various post-Soviet states and Russia, Kathleen Hancock found that Turkmenistan, along with Georgia, Ukraine and the Baltic states, had signed fewest treaties, and therefore classified it as belonging in the category of states that are “resistant” to Russia in the international arena. By contrast, Kazakhstan, along with Belarus, had joined the most treaties and were categorized as having “friendly” relations with Russia. Although this study is from 2006, while Niyazov was still in power, there

have not been any dramatic changes in Turkmenistan's accession to international treaties with Russia or other countries in recent years. Its foreign policy under Berdymukhamedov has become significantly more active, but still very much multi-vector.

Thus Turkmenistan is not as closely tied to Russia as its continued reliance on Russia as a transit country and prickly unpredictability in negotiations with Western partners over the Trans-Caspian Gas Pipeline might indicate. Hancock's survey, however, covers treaties in all sectors. The main pillar of Turkmenistani-Russian relations is trade in natural gas. And as far as natural gas exports are concerned, Turkmenistan does remain closely tied to Russia. The overall picture is thus one of a balance between continued strong relations with Russia (and expanding cooperation with China) in the energy sector, and at the same time maintaining a clear distance from Russia in overall foreign policy.

### **Russia and Turkmenistan: Tango for Three**

Observers frequently note that Russia is dependent on cheap supplies from Central Asia, and Turkmenistan in particular, in order to maintain its gas balance, its export commitments and its profits from exports to the EU. Russia's situation presumably exacerbates the geopolitical competition between the West and Russia over the states in the South Caucasus and Central Asia. The competition becomes one not only over military bases, Russia's historical sphere of influence and valuable resources, but a struggle for Russia's own energy security and survival. Without Central Asian gas, it is thought, Russia might not have sufficient energy to cover either its export commitments or its domestic consumption. But is this really the case?

Central to finding an answer to this question is Ukraine. The bumpy relationship between Russia and Turkmenistan and the equally volatile relations between Russia and Ukraine need to be understood as part of an integrated trilateral relationship with natural gas as one of its centerpieces. Until 2006, much of Ukraine's gas imports were based on direct trade with Turkmenistan, often involving multiple shady companies and messy barter agreements in which Ukraine paid partly in cash and partly in kind for Turkmenistani gas. Often neither the cash nor even the Ukrainian-produced goods were delivered in full.

The agreement reached after the January 2006 Russian-Ukrainian gas crisis put an end to the direct trade between Turkmenistan and Ukraine. The new setup was based on Gazprom buying gas from Turkmenistan and selling it to only one of the shady

middleman companies (RosUkrEnerg), which ultimately sold it to Ukraine. As we now know, this arrangement did not improve the situation, but instead transformed it into a question of Russian-Ukrainian bilateral relations. The defining aspect of the energy component in these relations is that it is a dual monopoly: Russia enjoys a monopoly on exports to Ukraine, while Ukraine has a stranglehold on around 80 percent of Russian gas exports to the EU. Thus, in energy relations between the two countries, two different forms of pipeline power are pitted against each other: producer power and transit power. The January 2009 natural gas crisis was the most serious confrontation between these two forms of pipeline power ever, anywhere in the world.

The severity of the 2009 crisis as compared to previous spats reflected the mutual desperation of both countries. Ukraine, whose post-Soviet economic survival was hardly possible without massive and painful restructuring in the first place, has been devastated by the global financial crisis. Russia too is suffering badly. As a commodity exporter with ambitious debt-fuelled plans using the stock prices of Russian raw material companies as collateral, Russia has experienced a cascade of problems due to the financial crisis. That is one reason why Gazprom and its biggest shareholder, the Kremlin, have been so adamant about passing on the rising price of Turkmenistani natural gas to the Ukrainian end-customers.

The volumes of gas involved are indicative of the importance of the Turkmenistan-Russia-Ukraine relationship for the greater Eurasian gas balance. Russia produces a total of around 607 bcm of natural gas per year. Turkmenistan exports 48 bcm to Russia, and Ukraine imports a total of 55 bcm from Russia. Thus Russia's imports from Turkmenistan correspond to 87 percent of Russia's exports to Ukraine. The remainder of Russia's exports to Ukraine is more than compensated by Russia's imports from Kazakhstan and Uzbekistan, totaling 16 bcm.

Until 2006, when Turkmenistan and Ukraine formally traded directly with each other and Russia made its profits from chaotic middleman operations, the Turkmenistan-Russia-Ukraine energy chain could relatively easily be distinguished from the issue of Russia's energy balance and its export commitments to the EU. When the relationship was streamlined after the January 2006 gas crisis, Turkmenistan's exports became part of the greater Russian and Eurasian picture. Although there have not been shortfalls of gas in Russia so far, if that should occur, Russia will be dependent on

Central Asia to fill the gap. The fact that Turkmenistan's exports make up only seven percent of Russia's gas balance (or ten percent along with those of Uzbekistan and Kazakhstan) means that it will not be the main factor in any future supply crunch. However, since a possible shortfall in Russian supplies may be only a few percent, those ten marginal percent may be decisive for how Russia manages to deal with the situation.

Russia's decision to pay more for Central Asian gas can be understood partly as a measure to fend off Western competition in Central Asia, and partly as a means of keeping Central Asian gas under its control in order to deal with any future problems with the gas balance. If Russia were to continue selling gas cheaply to Ukraine, it would have to pay the cost of this measure itself. It is therefore paramount for Russia to pass on the bill to Ukraine.

An interesting aspect of the triangular relationship between Turkmenistan, Russia and Ukraine is that Russia previously used the same transit power vis-à-vis Turkmenistan as Ukraine uses vis-à-vis Russia. In this perspective, the proposed Trans-Caspian Natural Gas Pipeline is to Turkmenistan what Nord Stream is to Russia: a way of sidestepping an expensive and risky transit country. The difference between the Turkmenistan–Russia and Russia–Ukraine relationships is that Russia is far bigger and more powerful than Turkmenistan, whereas Ukraine is far smaller and weaker than Russia. This also means that now that Russia has relaxed the use of its transit power in relation to Turkmenistan, it may be able to force Ukraine to follow suit.

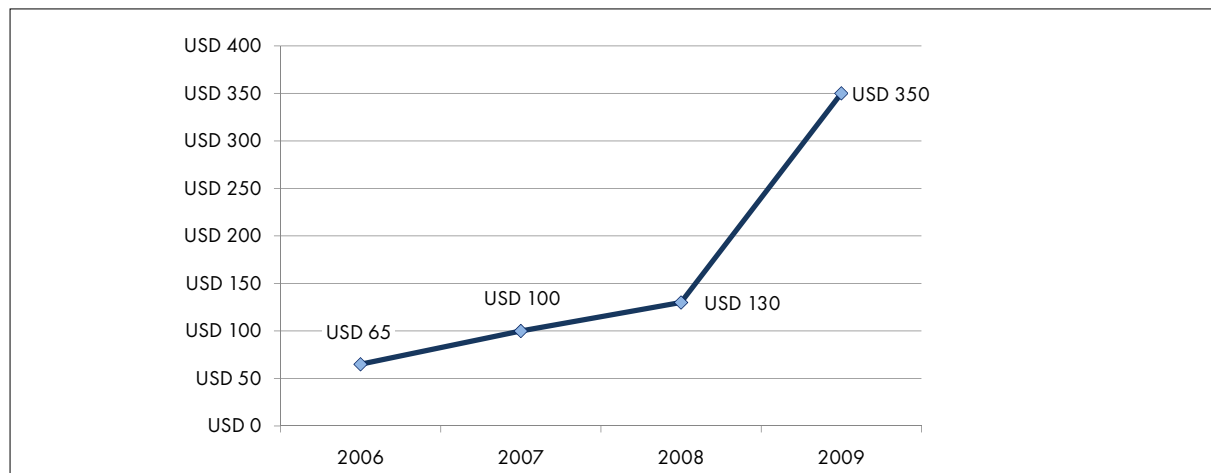
*About the author*

Indra Overland is the Head of the Energy Programme at the Norwegian Institute of International Affairs (NUPI) and Associate Professor at the University of Tromsø, Norway.

*Further reading*

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- International Energy Agency (IEA), *Perspectives on Caspian Oil and Gas Development* (Paris: IEA, 2008).
- Simon Pirani, Jonathan Stern, and Katja Yafimava, *The Russian–Ukrainian Gas Dispute of January 2009: A Comprehensive Assessment* (Oxford: Oxford Institute of Energy Studies, 2009).

**USD per 1000 m<sup>3</sup> of Natural Gas Paid by Russia to Turkmenistan**



Sources: based on projections in Mayer, C., "Turkmenistan Emerges as a Serious Natural Gas Player", Penny Sleuth, 2009, <http://www.pennysleuth.com/turkmenistan-emerges-as-serious-natural-gas-player/>, Closson, S. and Perovic, J. "Hope Won't Keep Europe Warm", RFE/RL, 8 January 2009, [http://www.rferl.org/content/commentary\\_Hope\\_Wont\\_Keep\\_Europe\\_Warm/1367913.htm](http://www.rferl.org/content/commentary_Hope_Wont_Keep_Europe_Warm/1367913.htm) and International Energy Agency (IEA), *Perspectives on Caspian Oil and Gas Development* (Paris: IEA, 2008).

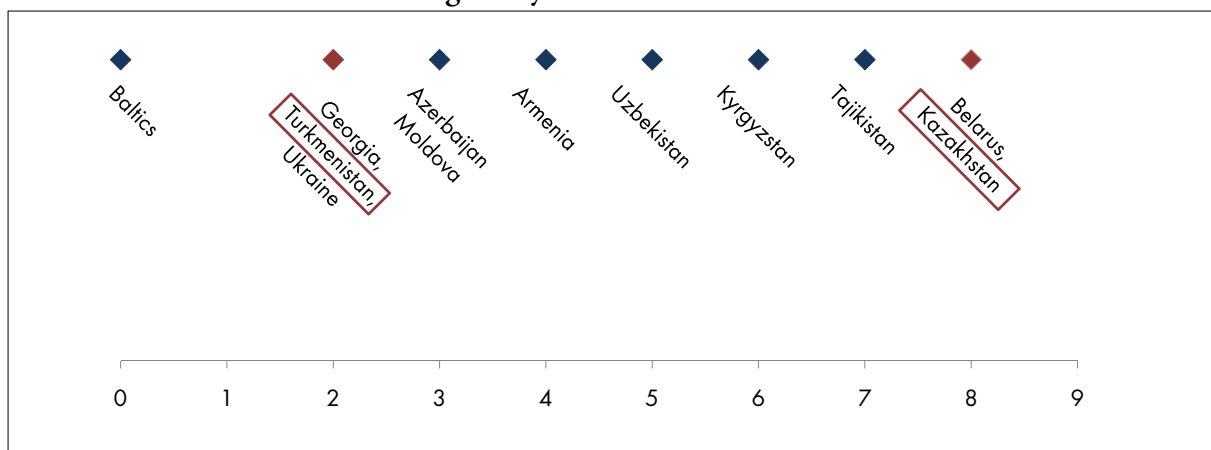
### The Importance of Central Asian Natural Gas for the Eurasian Gas Balance (in Billions of Cubic Meters)

|                                  |          |
|----------------------------------|----------|
| Russia's total production        | 607 bcm* |
| Turkmenistan's exports to Russia | 48 bcm*  |
| Kazakhstan's exports to Russia   | 5 bcm*   |
| Uzbekistan's exports to Russia   | 11 bcm*  |
| Ukraine's imports from Russia    | 55 bcm** |
| Russia's exports to the EU       | 148 bcm* |

NB: \* figures for 2007, \*\* figures for 2008

Sources: Russia's total production and Russia's exports to the EU: BP Statistical Review of World Energy (London: BP, 2008): 24 and 30, respectively; Turkmenistan, Kazakhstan, and Uzbekistan: International Energy Agency (IEA), Perspectives on Caspian Oil and Gas Development (Paris: IEA, 2008): 10; Ukraine: Simon Pirani, Jonathan Stern, and Katja Yafimava, The Russian-Ukrainian Gas Dispute of January 2009: A Comprehensive Assessment (Oxford: Oxford Institute of Energy Studies, 2009): 6.

### Number of Treaties with Russia Signed by Other Post-Soviet States



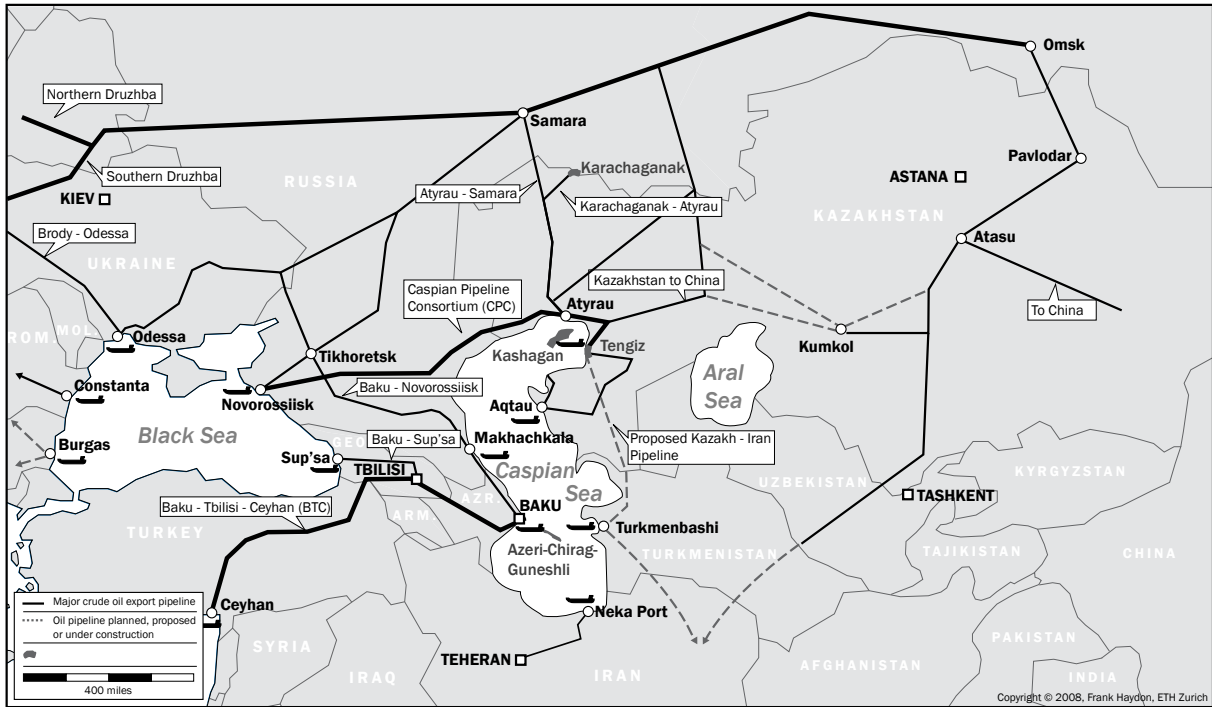
Source: Hancock, K., "Bringing Economics back in: How Relation-Specific Assets Shed Light on Russia--Turkmenistan Economic Relations", paper presented at the annual meeting of the International Studies Association, San Diego, California, 22 March 2006: [http://www.allacademic.com/meta/p\\_mla\\_ap\\_a\\_research\\_citation/0/9/9/2/3/p99238\\_index.html](http://www.allacademic.com/meta/p_mla_ap_a_research_citation/0/9/9/2/3/p99238_index.html) : 1.

The articles in this issue of the Russian Analytical Digest were written as part of the research project "RUSSCASP – Russian and Caspian energy developments", financed by the PETROSAM program of the Research Council of Norway. The project is carried out with the Fridtjof Nansen Institute, the Norwegian Institute for International Affairs and Econ Pöyry as consortium partners and also includes other institutions and researchers.

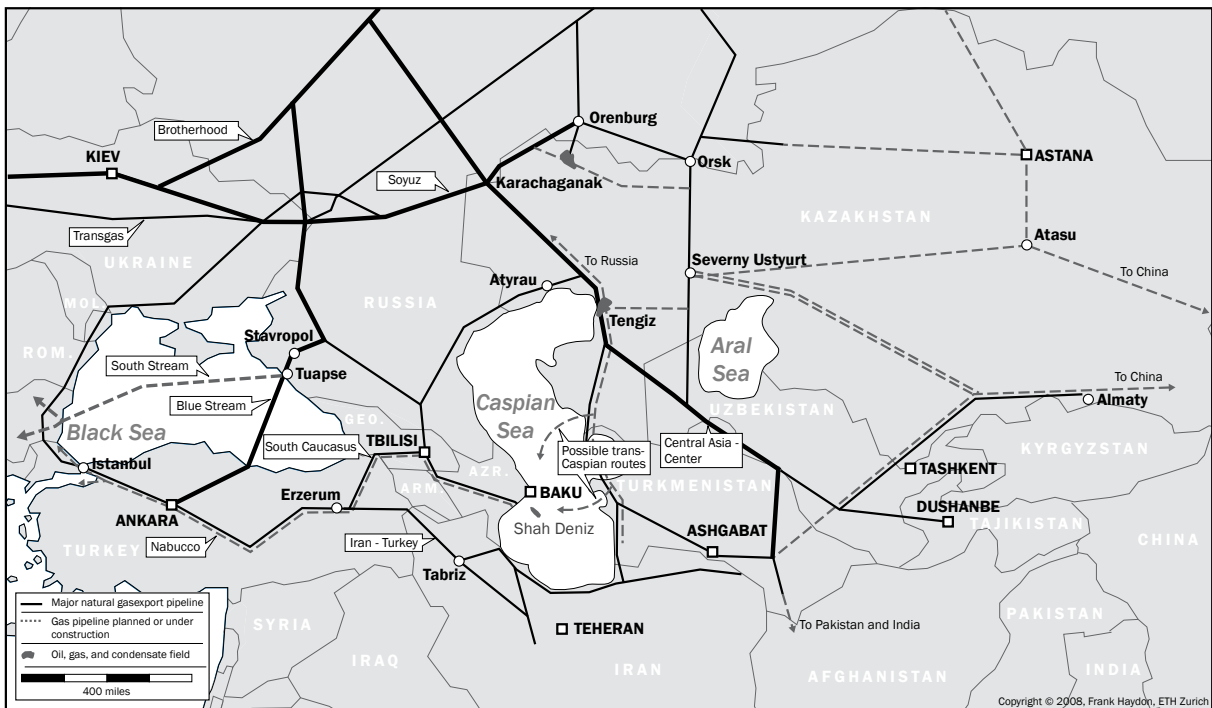
**Maps**

**Major Oil and Natural Gas Pipelines in Central Asia and Around the Caspian**

**Major Oil Pipelines**



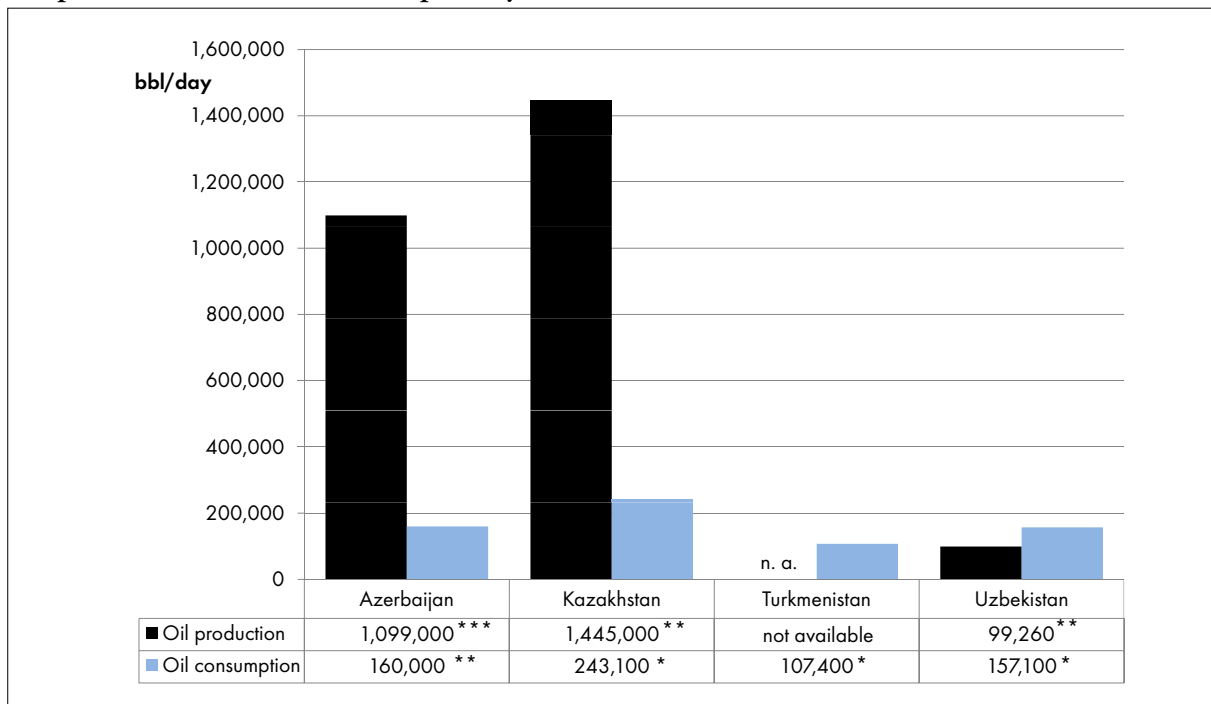
**Major Natural Gas Pipelines**



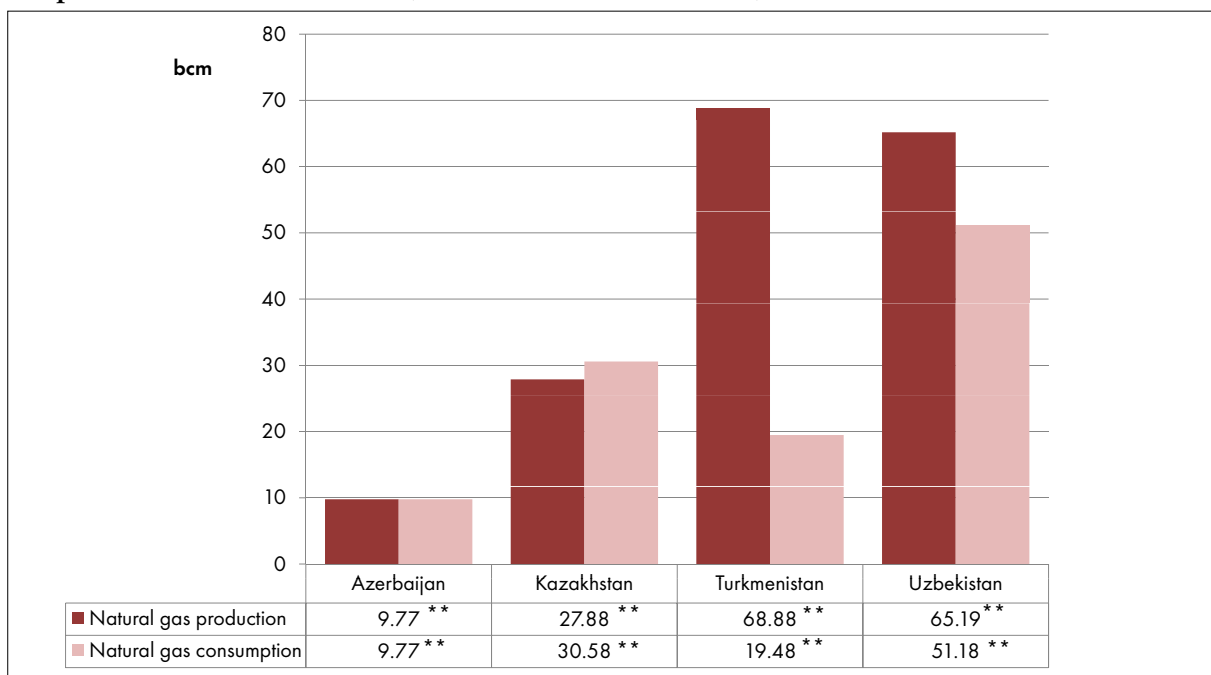
**Statistics**

## Caspian Oil and Natural Gas Balances

### Caspian Oil Balances (in Barrel per Day)



### Caspian Natural Gas Balances (in Billions of Cubic Meters)

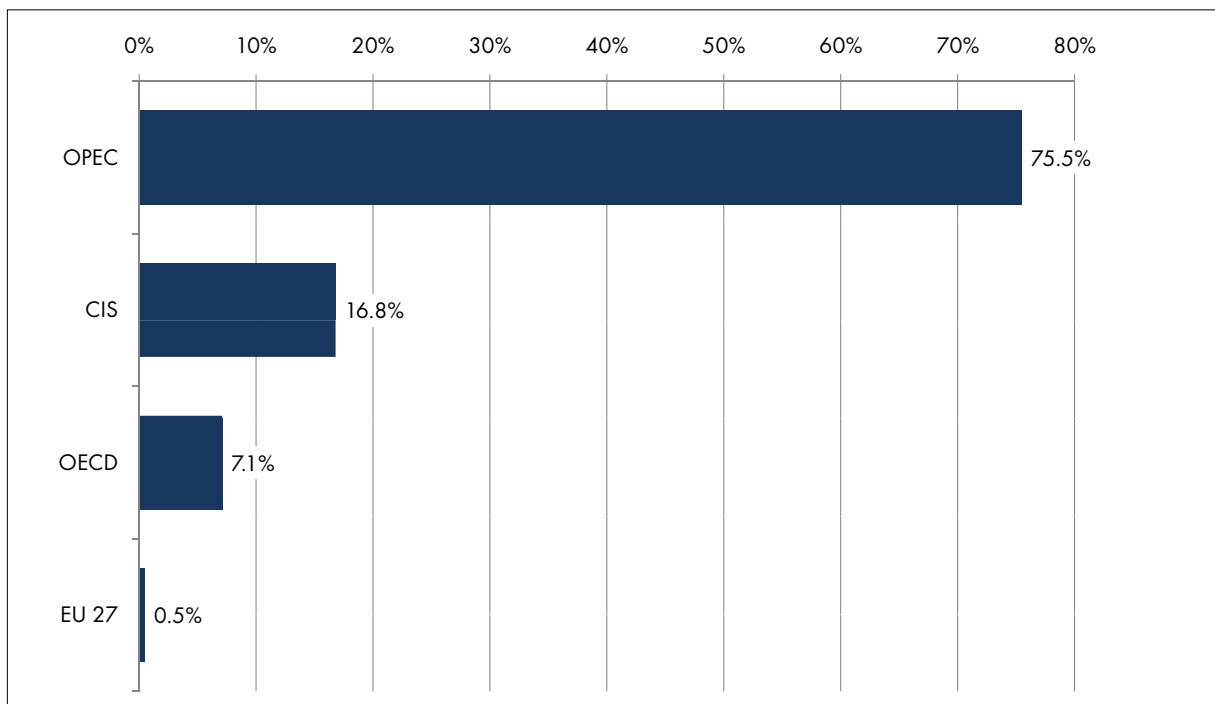
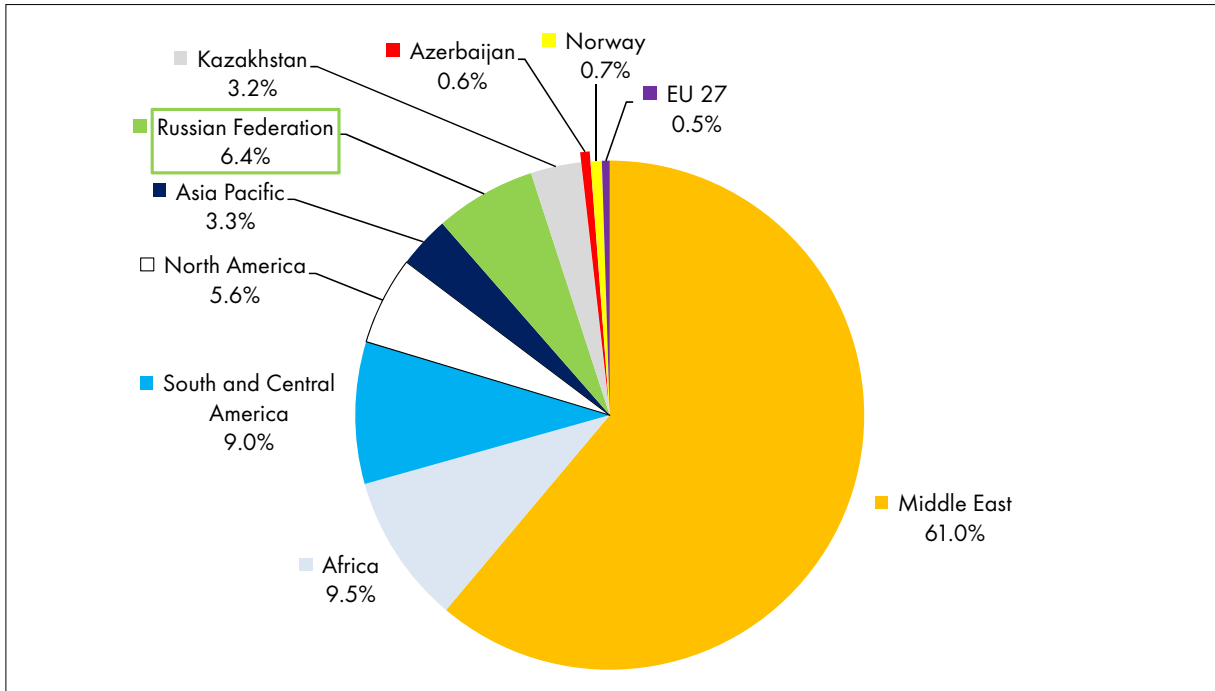


NB.: All figures are estimates; \* figures for 2006, \*\* figures for 2007, \*\*\* figures for 2008.

Source: CIA World Factbook, <https://cia.gov/library/publications/the-world-factbook/index.html>

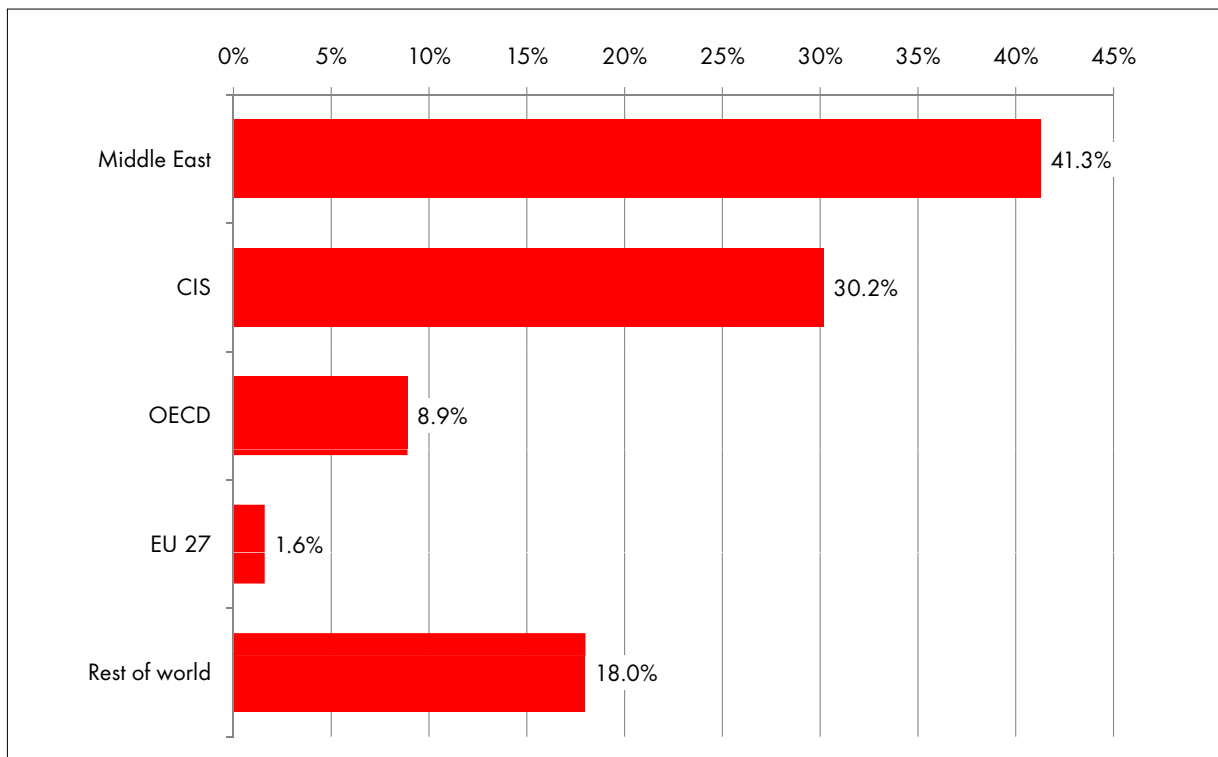
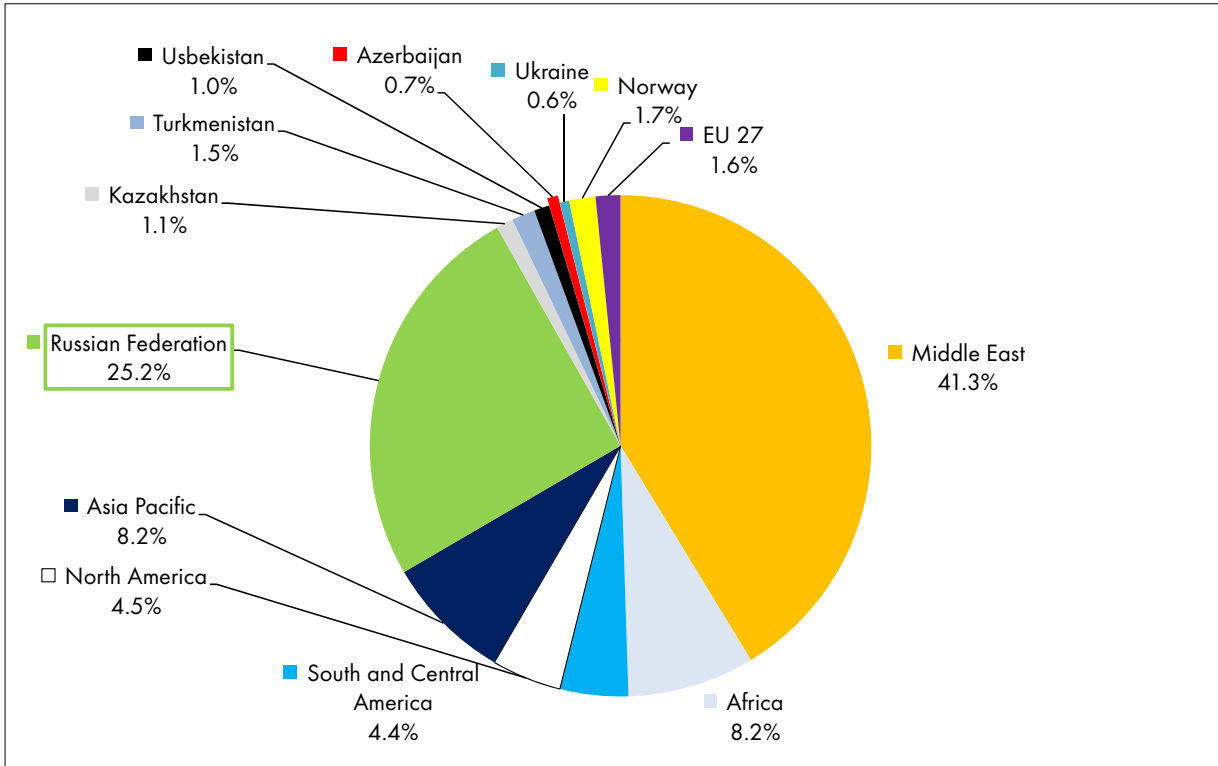
## Russian Oil and Gas Reserves, Production and Consumption in International Comparison

Distribution of World Oil Reserves (Proven Reserves, End of Year 2007) (%)



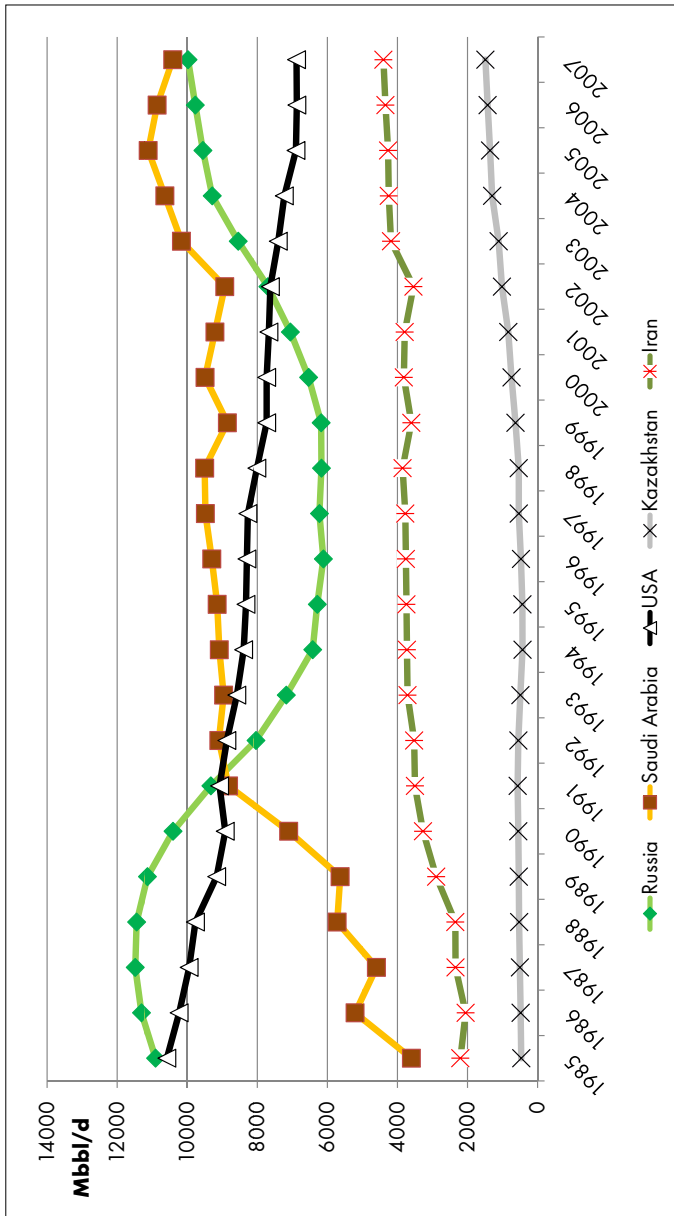
Source: BP Statistical Review of World Energy June 2008, <http://www.bp.com/statisticalreview>

Distribution of World Natural Gas Reserves (Proven Reserves, End of Year 2007) (%)



Source: BP Statistical Review of World Energy June 2008, <http://www.bp.com/statisticalreview>

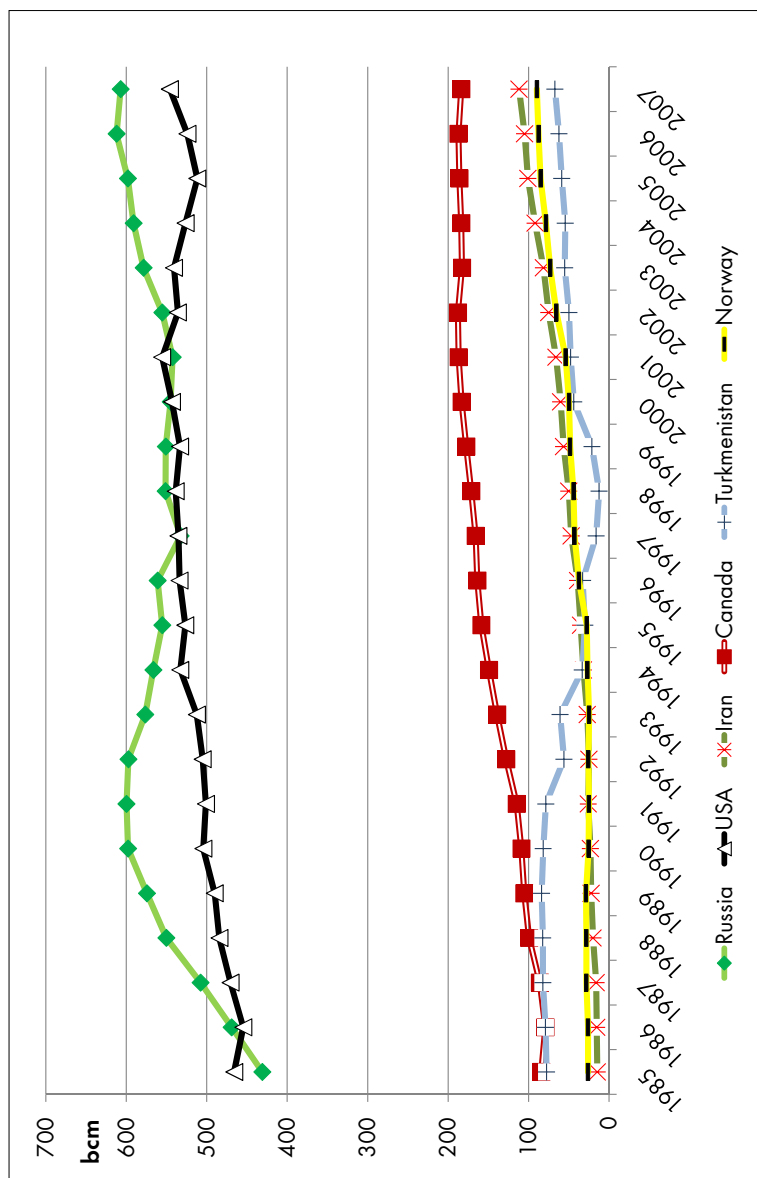
Major Oil Producing Countries 1985–2007 (in Thousand Barrels Daily)



|              | 1985  | 1986  | 1987  | 1988  | 1989  | 1990  | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003  | 2004  | 2005  | 2006  | 2007  |
|--------------|-------|-------|-------|-------|-------|-------|------|------|------|------|------|------|------|------|------|------|------|------|-------|-------|-------|-------|-------|
| Russia       | 10904 | 11306 | 11484 | 11484 | 11135 | 10405 | 9326 | 8038 | 7173 | 6419 | 6288 | 6114 | 6227 | 6169 | 6178 | 6536 | 7056 | 7698 | 8544  | 9287  | 9552  | 9769  | 9978  |
| Saudi Arabia | 3601  | 5208  | 4599  | 5720  | 5635  | 7105  | 8820 | 9098 | 8962 | 9084 | 9145 | 9299 | 9482 | 9502 | 8853 | 9491 | 9209 | 8928 | 10164 | 11114 | 11114 | 10859 | 10413 |
| USA          | 10580 | 10231 | 9944  | 9765  | 9159  | 8914  | 9076 | 8868 | 8583 | 8389 | 8322 | 8295 | 8269 | 8011 | 7731 | 7733 | 7669 | 7626 | 7400  | 7228  | 6895  | 6871  | 6879  |
| Kazakhstan   | 466   | 484   | 504   | 526   | 536   | 551   | 569  | 549  | 490  | 430  | 434  | 474  | 536  | 537  | 631  | 744  | 836  | 1018 | 1111  | 1297  | 1356  | 1426  | 1490  |
| Iran         | 2205  | 2054  | 2342  | 2349  | 2894  | 3270  | 3500 | 3523 | 3712 | 3730 | 3744 | 3759 | 3776 | 3855 | 3603 | 3818 | 3794 | 3543 | 4183  | 4248  | 4268  | 4343  | 4401  |

Source: BP Statistical Review of World Energy June 2008, <http://www.bp.com/statisticalreview>

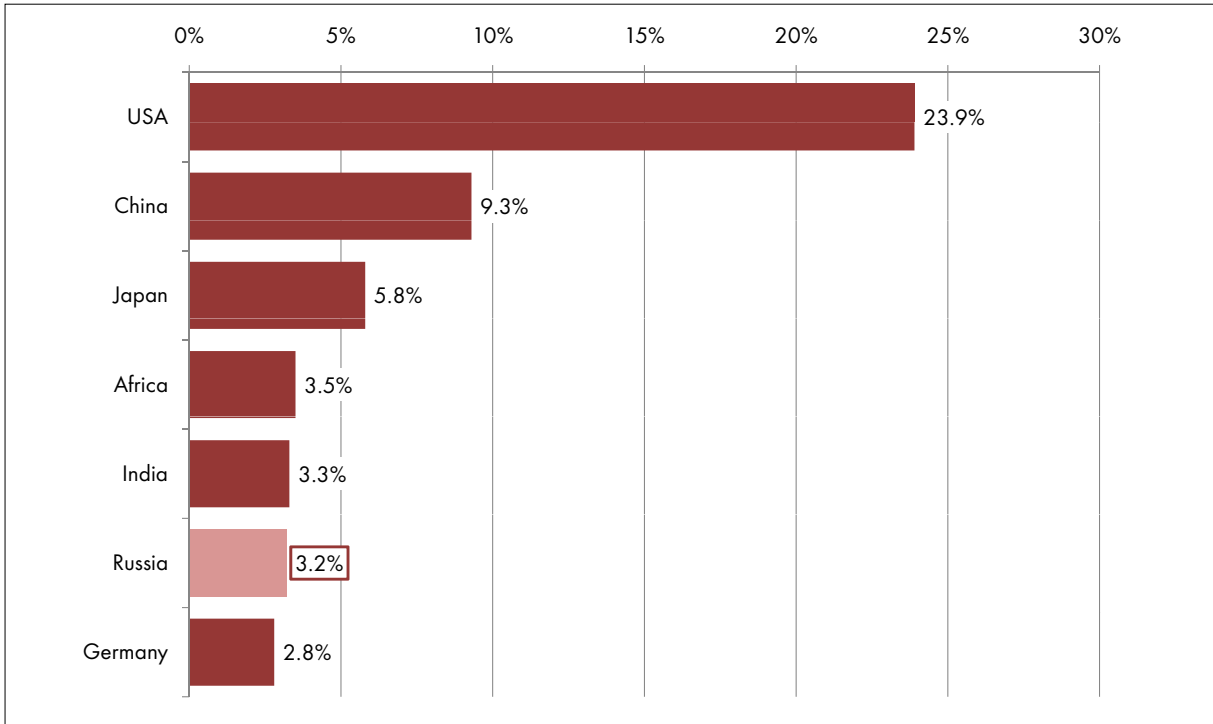
Major Gas Producing Countries 1985–2007 (in Billion Cubic Meters)



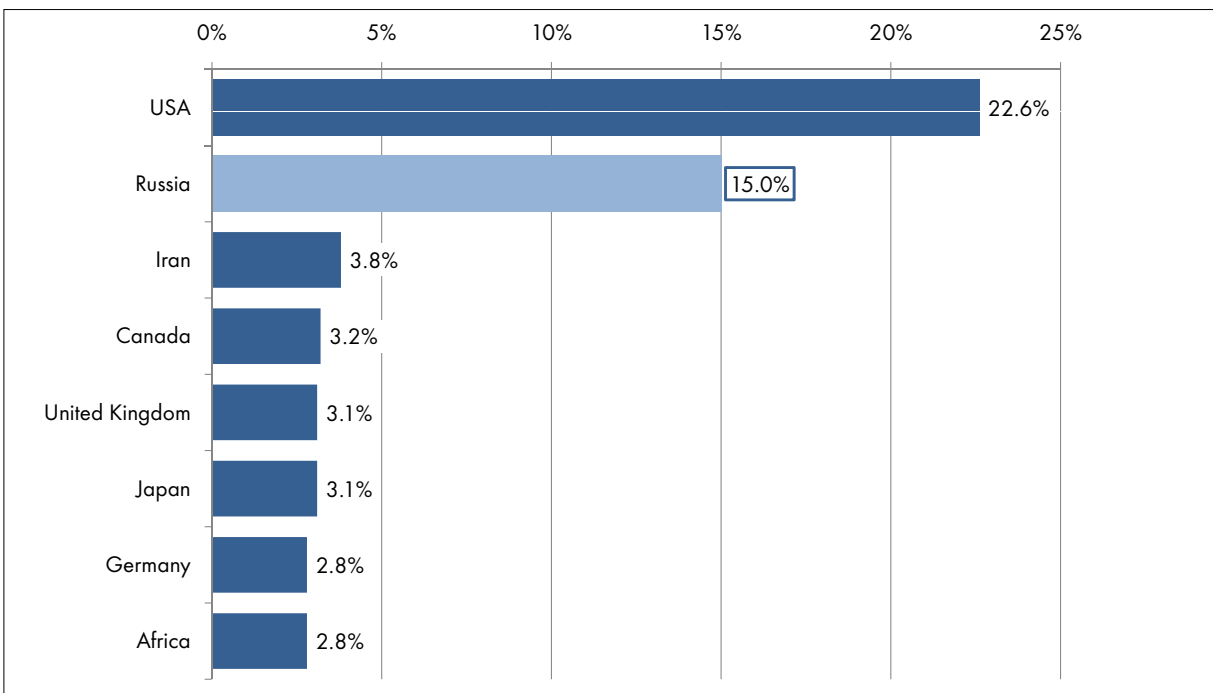
|              | 1985  | 1986  | 1987  | 1988  | 1989  | 1990  | 1991  | 1992  | 1993  | 1994  | 1995  | 1996  | 1997  | 1998  | 1999  | 2000  | 2001  | 2002  | 2003  | 2004  | 2005  | 2006  | 2007  |
|--------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Russia       | 431.0 | 469.2 | 507.7 | 550.2 | 574.4 | 597.9 | 599.8 | 597.4 | 576.5 | 566.4 | 555.4 | 561.1 | 532.6 | 551.3 | 551.0 | 545.0 | 542.0 | 555.4 | 578.6 | 591.0 | 598.0 | 612.1 | 607   |
| USA          | 465.9 | 454.7 | 470.6 | 484.3 | 490.2 | 504.3 | 501.1 | 505.2 | 512.4 | 533.0 | 526.7 | 533.9 | 535.3 | 538.7 | 533.3 | 543.2 | 555.5 | 536.0 | 540.8 | 526.4 | 511.8 | 524.1 | 545.9 |
| Iran         | 14.6  | 15.2  | 16.0  | 20.0  | 22.2  | 23.2  | 25.8  | 25.0  | 27.1  | 31.8  | 35.3  | 39.0  | 47.0  | 50.0  | 56.4  | 60.2  | 66.0  | 75.0  | 81.5  | 91.8  | 100.9 | 105.0 | 111.9 |
| Canada       | 84.2  | 79.1  | 86.1  | 99.3  | 105.4 | 108.9 | 114.8 | 127.8 | 139.0 | 149.1 | 158.7 | 163.6 | 165.8 | 171.3 | 177.4 | 183.2 | 186.8 | 187.8 | 182.7 | 183.6 | 185.9 | 187.0 | 183.7 |
| Turkmenistan | 77.6  | 79.0  | 82.2  | 82.4  | 83.9  | 81.9  | 78.6  | 56.1  | 60.9  | 33.3  | 30.1  | 32.8  | 16.1  | 12.4  | 21.3  | 43.8  | 47.9  | 49.9  | 55.1  | 54.4  | 58.8  | 62.2  | 67.4  |
| Norway       | 26.2  | 26.1  | 28.2  | 28.3  | 28.7  | 25.5  | 25.0  | 25.8  | 24.8  | 26.8  | 27.8  | 37.4  | 43.0  | 44.2  | 48.5  | 49.7  | 53.9  | 65.5  | 73.1  | 78.5  | 85.0  | 87.6  | 89.7  |

Source: BP Statistical Review of World Energy June 2008, <http://www.bp.com/statisticalreview>

**Share of Oil Consumption Worldwide 2007 (%)**



**Share of Natural Gas Consumption Worldwide 2007 (%)**



Source: BP Statistical Review of World Energy June 2008, <http://www.bp.com/statisticalreview>

## Reading Tip

# Russian Energy Power and Foreign Relations

## Implications for Conflict and Cooperation

Edited by Jeronim Perovic, Robert W. Orttung, Andreas Wenger

ISBN: 978-0-415-48438-1

Binding: Hardback

Published by: Routledge

Publication Date: 4th February 2009

Pages: 272

This book examines Russia's new assertiveness and the role of energy as a key factor in shaping the country's behavior in international relations, and in building political and economic power domestically, since the 1990s.

Energy transformed Russia's fortunes after its decline during the 1990s. The wealth generated from energy exports sparked economic recovery and political stabilization, and has significantly contributed to Russia's assertiveness as a great power. Energy has been a key factor in shaping Russia's foreign relations in both the Eurasian and global context. This development raises a host of questions for both Russia and the West about the stability of the Russian economy, how Russia will use the power it gains from its energy wealth, and how the West should react to Russia's new-found political weight.

Given that energy is likely to remain at the top of the global political agenda for some time to come, and Russia's role as a key energy supplier to Europe is unlikely to diminish soon, this book sheds light on one of the key security concerns of the 21st century: where is Russia headed and how does energy affect the changing dynamics of Russia's relations with Europe, the US and the Asia-Pacific region.

This book will be of interest to students of Russian politics, energy security, international relations and foreign policy in general.

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**Part 1: Introduction** 1. Russian Energy Power: Domestic and International Dimensions *Jeronim Perovic* **Part 2: The Domestic Dimension of Russian Energy** 2. The Sustainability of Russia's Energy Power: Implications for Russia's Economy *Philip Hanson* 3. Energy and State-Society Relations: Socio-Political Aspects of Russia's Energy Wealth *Robert Orttung* 4. Developing Russia's Oil and Gas Industry: What Role for the State? *Heiko Pleines* **Part 3: Russia's Role in International Energy Markets** 5. Russia's Key Customer: Europe *Stacy Closson* 6. Russia's Role in the Eurasian Energy Market: Seeking Control in the Face of Growing Challenges *Julia Nanay* 7. Russia's Future Customers: Asia and Beyond *Nina Poussenkova* **Part 4: International Policies Towards Russia** 8. European Perspectives for Managing Dependence *Pami Aalto* 9. US Energy Policy and the Former Soviet Union: Parallel Tracks *Peter Rutland* 10. Chinese Perspectives on Russian Oil and Gas *Indra Overland* and *Kyrre Elvenes Braekhus* **Part 5: Conclusion** 11. Russia's Energy Power: Implications for Europe and for Transatlantic Cooperation *Andreas Wenger*

## About the Russian Analytical Digest

Editors: Matthias Neumann, Robert Ortung, Jeronim Perović, Heiko Pleines, Hans-Henning Schröder

The Russian Analytical Digest is a bi-weekly internet publication jointly produced by the Research Centre for East European Studies [Forschungsstelle Osteuropa] at the University of Bremen ([www.forschungsstelle.uni-bremen.de](http://www.forschungsstelle.uni-bremen.de)) and the Center for Security Studies (CSS) at the Swiss Federal Institute of Technology Zurich (ETH Zurich). It is supported by the German Association for East European Studies (DGO). The Digest draws on contributions to the German-language Russlandanalysen ([www.laender-analysen.de/russland](http://www.laender-analysen.de/russland)), the CSS analytical network on Russia and Eurasia ([www.res.ethz.ch](http://www.res.ethz.ch)), and the Russian Regional Report. The Russian Analytical Digest covers political, economic, and social developments in Russia and its regions, and looks at Russia's role in international relations.

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## Research Centre for East European Studies [Forschungsstelle Osteuropa] at the University of Bremen

Founded in 1982, the Research Centre for East European Studies (Forschungsstelle Osteuropa) at the University of Bremen is dedicated to socialist and post-socialist cultural and societal developments in the countries of Central and Eastern Europe.

The Research Centre possesses a unique collection of alternative culture and independent writings from the former socialist countries in its archive. In addition to extensive individual research on dissidence and society in socialist countries, since January 2007 a group of international research institutes is participating in a collaborative project on the theme "The other Eastern Europe – the 1960s to the 1980s, dissidence in politics and society, alternatives in culture. Contributions to comparative contemporary history", which is funded by the Volkswagen Foundation.

In the area of post-socialist societies, extensive research projects have been conducted in recent years with emphasis on political decision-making processes, economic culture and the integration of post-socialist countries into EU governance. One of the core missions of the institute is the dissemination of academic knowledge to the interested public. This includes regular email service with nearly 20,000 subscribers in politics, economics and the media.

With a collection of publications on Eastern Europe unique in Germany, the Research Centre is also a contact point for researchers as well as the interested public. The Research Centre has approximately 300 periodicals from Russia alone, which are available in the institute's library. News reports as well as academic literature is systematically processed and analyzed in data bases.

## The Center for Security Studies (CSS) at ETH Zurich

The Center for Security Studies (CSS) at the Swiss Federal Institute of Technology (ETH Zurich) is a Swiss academic center of competence that specializes in research, teaching, and information services in the fields of international and Swiss security studies. The CSS also acts as a consultant to various political bodies and the general public.

The CSS is engaged in research projects with a number of Swiss and international partners. The Center's research focus is on new risks, European and transatlantic security, strategy and doctrine, state failure and state building, and Swiss foreign and security policy.

In its teaching capacity, the CSS contributes to the ETH Zurich-based Bachelor of Arts (BA) degree course for prospective professional military officers in the Swiss army and the ETH and University of Zurich-based MA program in Comparative and International Studies (MACIS), offers and develops specialized courses and study programs to all ETH Zurich and University of Zurich students, and has the lead in the Executive Masters degree program in Security Policy and Crisis Management (MAS ETH SPCM), which is offered by ETH Zurich. The program is tailored to the needs of experienced senior executives and managers from the private and public sectors, the policy community, and the armed forces.

The CSS runs the International Relations and Security Network (ISN), and in cooperation with partner institutes manages the Comprehensive Risk Analysis and Management Network (CRN), the Parallel History Project on NATO and the Warsaw Pact (PHP), the Swiss Foreign and Security Policy Network (SSN), and the Russian and Eurasian Security (RES) Network.

Any opinions expressed in Russian Analytical Digest are exclusively those of the authors.

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