National Security & Caspian Basin Hydrocarbons

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Hydrocarbon reserves (natural gas and oil) from the Caspian Sea and its littoral states once controlled exclusively by the Union of Soviet Socialist Republics (USSR) and Iran now have considerable potential to affect U.S. national security. The U.S., working in concert with the European Union (EU), must utilize both hard and soft power to cultivate and leverage relationships within the Caspian Basin to ensure hydrocarbons flow unimpeded from the region in order to decrease Russian and Iranian ability to use these resources as foreign policy tools to coerce neighboring nations and destabilize the region. The U.S. must boost diplomatic efforts, encourage commercial energy investment, and increase joint-military engagements in Azerbaijan, Kazakhstan, Turkmenistan and Georgia to diminish Russia's regional monopoly of hydrocarbons while creating a wedge between Russian and Iranian energy cooperation to mitigate global natural gas domination.

Figure 1

Power Vacuum

The Caspian Sea is the largest land-locked body of salt water in Central Asia (roughly the size of Japan) and it carries strategic energy implications. See Figures 1 & 2. Since the collapse of the USSR (1991), western oil and natural gas companies poured into the region to exploit energy interests. However, Caspian Sea territorial disputes among all five littoral nations (Azerbaijan, Kazakhstan, Turkmenistan, Russia and Iran) inhibit development efforts. Before 1991, the USSR and Iran divided the Caspian Sea in accordance with governing agreements focusing on fishing rights and blocking foreign-military presence. Today, these agreements prove problematic because they do not accommodate the former Soviet Republics of Azerbaijan, Kazakhstan, and Turkmenistan that are now independent nations.[1]

Figure 2

Immediately following the USSR's collapse, Russia focused inward for survival while Kazakhstan and Azerbaijan focused outward insisting the Caspian Sea be divided based on a median line (Figure 3) where each state maintains a region proportional to its coastline length (Kazakhstan 29%, Azerbaijan 20%, Russia 16%, Turkmenistan 21%, and Iran 14%).[2] In contrast, in an attempt to capture more territory, Iran asserts any division should give each state an equal fifth (20 %) of the Caspian (Figure 4).[3] Ultimately, the littoral nations failed to reach a collective agreement.

With no existing multilateral/international territorial concurrence, Russia

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See footnotes at end of text.

signed bilateral agreements along the median lines with Azerbaijan and Kazakhstan in 2002.[4] These individual agreements entitled each country to exercise sovereignty using the median line for seabed borders and common ownership on the sea surface.[5] All Caspian littoral states desire to resolve the dispute except for Iran which stands to lose six percent of the Caspian Sea if they agree to the median line division.[6] Russia's median line advocacy is in sharp contrast to the monopolistic principles of the former USSR. Russia realizes the economic benefit from relations with the Caspian states is achieved through its vast pipeline network instead of forcing imperialistic influence.[7]

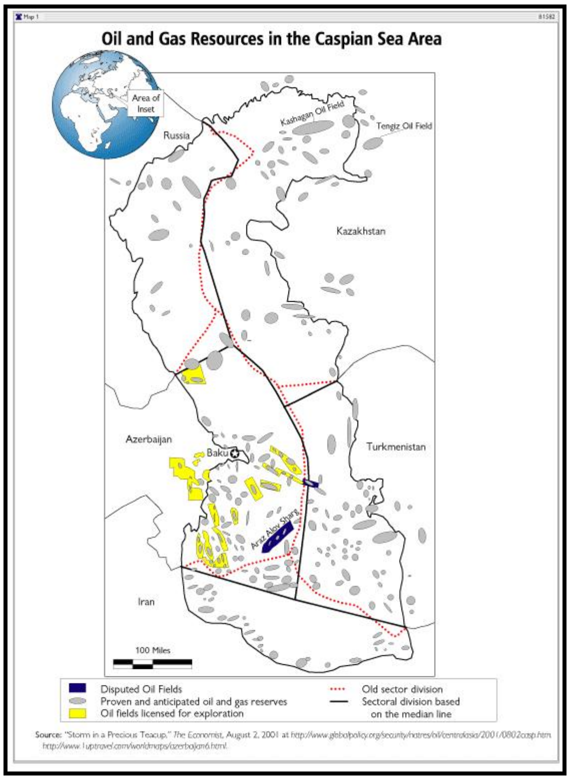

Figure 3[8]

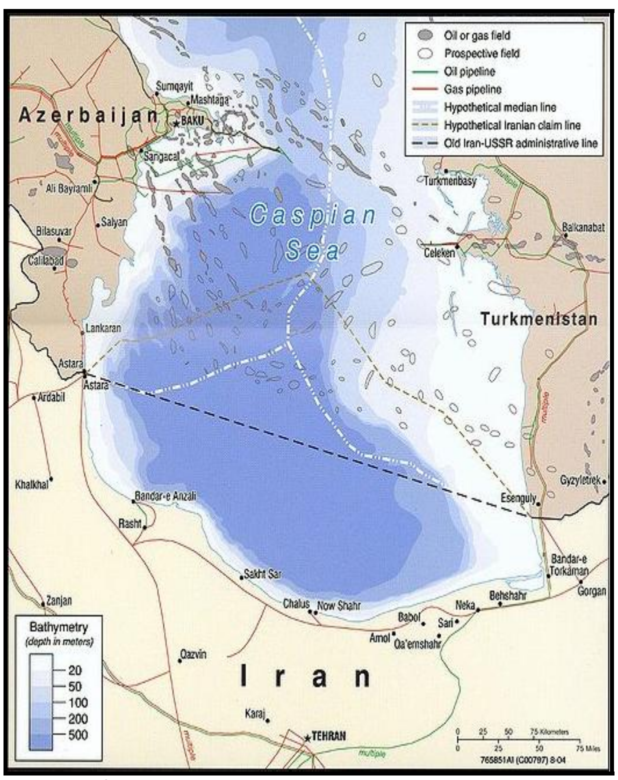

Figure 4[9]

Proposed Divisions of the Caspian Sea

In spite of potential for economic prosperity, border disagreements continue into the 21st century. The first Summit of Caspian Sea Heads of State, held in 2002, failed to achieve anything significant on the sea demarcation or legal status and ended without a final declaration. The littoral nations held a second Summit in 2007 with little progress, except declaring only Caspian countries can deploy military forces in the sea and not allow foreign countries to use their nations as military staging bases against any other littoral state.[10] In November 2010 Azerbaijan hosted the third summit of the Caspian littoral states. Leaders of Russia, Azerbaijan, Iran, Kazakhstan, and Turkmenistan met in Baku and discussed the legal status of the Caspian Sea. No major breakthrough on this issue was achieved. Iran continued to push its own policy. The Iranians maintain the resources of the Caspian not be divided according to the amount of coastland each of state has on the Caspian, but on an equal 20 percent of the Caspian for each nation. In the meantime, regional pipeline politics that distribute the vital hydrocarbons are center stage.

Russia continues to control an elaborate pipeline network created during the Soviet era flowing Azeri, Kazak, and Turkmen hydrocarbons straight to Russia in a south–north direction allowing Russia to control distribution.[11] However, in 2005 construction was completed on the $3.7 billion 1,000 mile east-west Baku-Tbilisi-Ceyhan (BTC) pipeline stretching from Baku, Azerbaijan to Ceyhan, Turkey via Tbilisi, Georgia. The BTC opened access to Central Asian hydrocarbons outside of Russian and Iranian influence, while attempting to traverse the most politically and geographically acceptable areas.

The monumental cost and political maneuvering required in establishing the BTC makes pursuit of similar ventures possible, but problematic. The Trans-Caspian gas pipeline project between Azerbaijan and Turkmenistan manifests more recent frustration of the distribution problem. The proposed natural gas pipeline would run under the Caspian Sea from Turkmenistan to Azerbaijan and send hydrocarbons straight to Europe. The 1,200 mile pipeline stalled due to the failure of Azeri and Turkmen negotiators to agree on a demarcation of their Caspian Sea border.[12] Moreover, Russia is impeding western pipeline initiatives; therefore, investors will not begin construction.[13]

What's at Stake

Proven Caspian Basin hydrocarbon reserves are under developed and investors remain optimistic that significant potential reserves remain undiscovered.[14] Although, the region produces only 2% of today's world oil production, the U.S. Department of Energy (DoE) and Energy Information Administration (EIA) estimate Caspian oil is nearly 15% of total world reserves. Likewise, natural gas production is only three percent of world output, but these same sources estimate the actual level closer to six percent.[15] However, locating and extracting the natural resources is only the first challenge. Caspian nations are land-locked inside Central Asia. Therefore, companies must transport hydrocarbons through lengthy pipelines transiting unstable neighboring nations before reaching the marketplace. Regional conflicts like the ongoing Armenia-Azerbaijan dispute and the 2008 Russian incursion into Georgia have occurred perilously close to pipelines that snake their way through Central Asia.

In spite of these concerns, the emergence of Caspian hydrocarbons is critically important. They hedge against supply disruptions from other tenuous regions around the world such as the Arabian Gulf, West Africa, and South America and have offset potential price increases during an expected period of rapidly growing demand. Just as important, profits will stimulate economic growth that enhances Central Asia's stability. [16]

Disjointed U.S. Policy

Current U.S. foreign energy policy in the Caspian is in stark contrast to the past strategies under the Clinton and Bush administrations. In the wake of the USSR's dissolution, President Clinton made a concerted effort to secure approval for the BTC pipeline. Likewise, prior to 9/11, George W. Bush's top foreign policy priority was to increase the flow of petroleum from foreign suppliers to U.S. markets.[17] President Bush encouraged commercial investment to increase extraction and distribution capacity including new pipelines sending oil and gas west under the Caspian Sea from Kazakhstan and Turkmenistan to Azerbaijan and thereby joining with the existing BTC pipeline system.

Conversely, the Obama administration is taking a laissez-faire approach to Caspian Basin hydrocarbon extraction and distribution. According to Richard Morningstar, the U.S. Secretary of State's special envoy for Eurasian energy, "we're [U.S.] trying to depoliticize pipelines and only asking that countries make their own decisions in how to produce and distribute resources in the region, rather than having to submit to the control of Russia as the dominant supplier of Europe's natural gas."[18] This liberal U.S. policy approach contributed to Pakistan and Iran agreeing in March 2010 to build a pipeline bringing natural gas to Pakistan. The vast natural gas markets in Pakistan and beyond have potential to enrich a regime with nuclear ambitions and further Iran's influence over a tenuous U.S. partner for the war on terror.[19] Unlike Clinton's administration who oversaw the BTC pipeline, Obama's special envoy for Eurasian energy Richard Morningstar failed to sufficiently influence a proposed pipeline to Pakistan from Turkmenistan that would have met Pakistan's requirements and forced Iran from the marketplace.

Regional Powerhouses

While U.S. energy policy ebbs and flows, Iran and Russia take the nexus of energy and foreign policy very seriously. Iran is a founding member of the Organization of the Petroleum Exporting Counties (OPEC) and the Iranian Energy Minister serves as chairman of the state operated National Iranian Oil Company. Iran controls the third largest oil and the second largest natural gas reserves in the world.[20] Until June 2010, Iran imported Caspian oil, refined it and exported an equivalent amount of Iranian oil from its Southern seaports. This oil swap arrangement provided Iran with opportunities to position itself as a player in the Caspian energy market, but they were forced to cease this practice due to United Nations (UN) and U.S. economic sanctions.[21] However, Iran is working to consolidate its territorial claims in the Caspian Sea for its own hydrocarbon extraction while they build an $8 billion pipeline to deliver natural gas east to markets in Pakistan.

While Iran positions itself to circumvent sanctions and Caspian Sea boundary disputes, Russia's strategy and influence is well established. Russian President Dmitry Medvedev "underscored the power of Gazprom, the $345 billion gas export monopoly he previously chaired. Once a Soviet ministry, Gazprom is the world's largest gas company, accounting for 20% of global supply. It pumps a quarter of Europe's gas, has diversified into oil, power and banking, and controls TV, radio and newspaper interests."[22]

Like the mythical phoenix, Russia uses hydrocarbon exports to fuel its reincarnation from the ashes of the USSR. Russia controls the largest natural gas and the eighth largest oil reserves on earth.[23] It is also the world's largest exporter of natural gas and the second largest oil exporter.[24] Russia's objective regarding Caspian hydrocarbons appears focused on commercial control and limiting competition. In fact, Gazprom boldly states on their webpage "we are keen to use the huge gas resources of Central Asia to optimize its gas supply for export."[25] Russia has significant inroads to the Caspian with its common history to the former Soviet countries and existing infrastructure.

Near and Present Danger

In recent years, Russia developed a strong track record using energy as a foreign policy tool that arguably presents a U.S. national security risk. While commanding USEUCOM, General Craddock expressed concerns about Russia's intent during Congressional testimony stating, "Russia has a desire to influence its neighbors and the international energy market".[26] This intent was demonstrated clearly in January 2006 when Gazprom cut Ukraine's natural gas supply in mid-winter after the fledgling Central Asian nation refused to pay a five-fold price hike.[27]

Critics may argue that Russia already controlled Caspian hydrocarbons during the Soviet era and the U.S. didn't consider this possession a significant threat; therefore no significant threat exists today. In rebuttal, the major difference is the USSR didn't export a significant amount of oil and natural gas to western markets. Western Europe only purchased three percent of their oil and two percent of their natural gas from the USSR in 1989.[28] Today, exports are significantly higher. Many EU nations are highly reliant on Russian hydrocarbons. Nearly 50% of EU members and 75% of candidate countries purchase a fifth and as much as 100% of their natural gas requirements from Russia.[29] When it comes to oil, many of these same EU nations purchase 90% or more of their hydrocarbon requirements from Russia including Poland, Slovakia, Lithuania, and Hungry.[30] [31] Russia created significant inroads supplying energy to the EU in the years since the USSR breakdown. In fact, 26 of 27 EU nations depend on external sources for energy and Russia is meeting their demand providing 33% and 40% of their oil and natural gas requirements, respectively (Table 1).[32]

	EU Member	Foreign Energy Dependency		EU Member	Foreign Energy Dependency
1	Cyprus	100%	15	Germany	61%
2	Malta	100%	16	Finland	54%
3	Luxembourg	98%	17	Slovenia	52%
4	Ireland	90%	18	France	51%
5	Italy	86%	19	Bulgaria	46%
6	Portugal	83%	20	Netherlands	38%
7	Spain	81%	21	Sweden	37%
8	Belgium	77%	22	Estonia	33%
9	Austria	72%	23	Romania	29%
10	Greece	71%	24	Czech Republic	28%
11	Latvia	65%	25	United Kingdom	21%
12	Lithuania	64%	26	Poland	19%
13	Slovakia	64%	27	Denmark	0%
14	Hungary	62%			

Table 1

In spite of Russia's significant leverage, the U.S. and EU must prevent energy cooperation and infrastructural development between Russia and Iran. If Russia and Iran collude to add the Caspian hydrocarbons to their own reserves, collectively they would control nearly 20% of the world's oil and over 55% of the world's natural gas.[33] We are already seeing the beginning stages of this collusion unfold. Gazprom recently signed an agreement with the National Iranian Oil Company to "develop oil and natural gas fields, build processing facilities and transport oil from the Caspian Sea to the Gulf."[34]

Increased Diplomacy

The U.S. and EU require a long-term integrated Central Asian energy strategy. This integration must include diplomatic, information, military, and economic engines of power. First, diplomatic efforts should focus on resolving ongoing maritime territorial disputes. Second, the U.S. should strengthen bilateral ties with each Caspian Basin nation and Georgia to build commercial and security partnerships. Third, USEUCOM and USCENTCOM should leverage embedded interagency and multinational partners to focus on economic development and security cooperation with Central Asian states.

Due to perceived national security implications from Russia and Iran, gaining approval on expanding a western backed pipeline further east into Central Asia will be a tough nut to crack. Furthermore, the current maritime partition of the Caspian Sea is tied to obsolete treaties ratified by the USSR that present a huge obstacle to western energy exploration and extraction.[35] Russia, Azerbaijan, Turkmenistan and Kazakhstan agree on the median line division of the Caspian Sea while Iran favors an equal 20% division.[36] Therefore, the lone holdout is Iran. The U.S. must work unilaterally, or through an intermediary to convince Iran to accept the median line.

The U.S. ceased diplomatic relations with Iran in 1980 and in 1981 Switzerland assumed representation of U.S. interests in Tehran.[37] In the ensuing years, Iran continues to be targeted with U.S. and UN sanctions that support a containment policy. The U.S. has pushed Iran into a diplomatic corner for 30 years with limited results. It is now time to show Iran an escape door. The U.S. and EU must demonstrate to Iran the benefits of U.S. diplomatic relations. If Iran agreed to settle the Caspian Sea borders along the median line the U.S. and Iran can establish diplomatic ties. The newly established diplomatic ties would serve as a conduit where the U.S. and EU can entice instead of force Iran to comply with UN Security Council resolutions.

President Obama opened a window of opportunity in the National Security Strategy stating "…the U.S. seeks a future in which Iran enjoys the political and economic opportunities that its people deserve."[38] Westernization in Iran is not unprecedented. In 1953, Iran restored diplomatic relations with Britain as a hedge against Soviet influence. A lucrative oil agreement was completed the following year.[39] The westernization eventually became known as the White Revolution. In 1961, President Kennedy propelled the Iranian White Revolution by pushing a series of economic, social, and administrative reforms. These initiatives contributed to unprecedented economic growth fueled by Iran's vast petroleum reserves.[40]

Direct negotiations with either Russia or Iran are not the only options. The U.S. and EU must attempt to strengthen the comparative position of the smaller countries by strengthening the diplomatic foundation of the Azeri, Kazak, and Turkmen governments in relation to Russia and Iran. There are recent successful examples of this type of strategy. After Azerbaijan, Georgia, and Turkey agreed to construct the BTC pipeline, Russia applied tremendous diplomatic pressure to scuttle the project.[41] In 2005, according to Mr. Vuqar Mirsadig (The Caspian Shipping Company), Russia made overt attempts to delay construction by impounding ships carrying pipeline construction equipment at the passage from the Volga-Don channel to the Caspian Sea.[42] However, the U.S. and EU skillfully employed diplomacy while simultaneously encouraging private sector investment in support of the project. According to Global Insight, "[the] BTC would never have become reality without strong political support from the U.S.."[43]

The U.S. and EU can also make a more concerted effort at garnering support in the international community for the Trans-Caspian gas and oil pipeline initiatives. For example, Turkmenistan recently dispatched officials to the UN to participate in creating "an ad-hoc panel of experts that would draft an agreement on international pipeline security".[44] Although the agreement is primarily focused on areas in which security is non existent, Turkmenistan's intent is "…to enlist the help of the UN secretariat and other UN member states to withstand Russia's pressure on energy corridors in its sphere of influence".[45] The U.S. and EU should pressure Russia to comply with this agreement while following Turkmenistan's lead in enlisting the international community to resolve the dispute.

Commercial Investment

If the Caspian territorial dispute can be resolved, the next logical step is to construct Trans-Caspian oil and gas pipelines connecting hydrocarbon fields on the Caspian east coast with Baku, Azerbaijan on the west coast. Kazakhstan controls one of the largest oil reserves in the world. From Kazakhstan, "(t)he pipeline would transport oil from the offshore Kashagan field, … where it would connect to the BTC oil pipeline."[46] (fig 2) The only current option for transporting Kazak oil to the west coast of the Caspian is via surface vessels which don't have the capacity to make them a viable alternative to Russian oil pipelines. The requirement for oil and gas pipelines beneath the Caspian Sea will become readily apparent in the future as the full potential of Kazak oil supplies are realized. Estimates are, "…within 20 years Kazakhstan could potentially become the largest oil producing nation outside of the Middle East."[47] This creates a continuous link from Central Asia to the southern coast of Turkey and opens up one of the largest known oil reserves to western markets unfettered by Russia and Iran.

Large natural gas reserves in Turkmenistan provide another opportunity to expand corporate investment in pipeline infrastructure. According to the Center for Energy Economics (CEE), Turkmenistan is unable to monetize a large portion of its gas reserves, currently 5th largest in the world, because Russian and Iranian pipelines offer access to limited markets.[48] Plans began in 1999 for a Trans-Caspian natural gas pipeline from Turkmenistan to Baku. This pipeline would connect to existing pipelines in Azerbaijan and Georgia then end in southern Turkey.[49] USEUCOM must leverage effective strategic communications to underscore the benefits associated with this pipeline endeavor to court world opinion. An area to highlight is the lucrative economic development created from underwater pipeline projects across the Caspian Sea. For example, transit countries (Azerbaijan, Georgia, and Turkey) and the exporter (Turkmenistan) will receive huge revenues from a Trans-Caspian natural gas pipeline. Azerbaijan, Georgia, and Turkey will enjoy positive returns along with an increasingly diversified energy portfolio of supplies which will enable the countries to attain greater economic independence. Turkmenistan will enjoy a positive net present value of $80 million per year due to reduced transport expenses.[50] The influx of revenue will increase stability in a region that has been fraught with economic and political uncertainty since the fall of the USSR.

Security Cooperation

USEUCOM and USCENTCOM can directly influence and facilitate U.S. energy policy operationally and strategically. Better economic and security ties along with an effective security cooperation strategy complimenting other aspects of the Whole of Government approach can synchronize and transmit U.S. intentions or mask them. In order to be effective, EUCOMs military to military engagement must balance an effective country engagement with the geo-political consequences associated with the region. Since 2001, the U.S. provided support to the Caspian Guard which is described as "…an initiative which established an integrated airspace, maritime and border control regime for the nations of Azerbaijan and Kazakhstan." [51] USCENTCOM should leverage this program by encouraging Turkmenistan to join the Caspian Guard thereby enhancing capacity for regional security. Turkmenistan's geo-strategic location makes it a prime partner for security cooperation. The country is located east of Azerbaijan; shares its northern border with Kazakhstan and southern border with Iran and Afghanistan. This places the country astride a natural east west transit corridor between Europe and Asia. Consequently, the benefits of increasing Turkmenistan's maritime security capacity are huge as it would increase interoperability with other littoral countries while improving the country's ability to fend off trans-national threats. Increasing the competence and capabilities of indigenous security forces creates stability. Consequently, private sector investment follows thereby increasing economic development.

USEUCOM & USCENTCOM should increase Azeri, Kazak, and Turkmen security capacity improvement through Foreign Military Sales (FMS) programs that provide modern military equipment to foreign nations. In 2002, the U.S. sold three Coast Guard Cutters to Azerbaijan for use in support of the Caspian Guard initiative.[52] Combatant commands must expand FMS programs to put an indigenous face on security initiatives while belaying Russian and Iranian concerns in regards to foreign militarization of the Caspian Sea.

Conclusion

U.S. and EU influence in Central Asia is paramount to the economic and security strategies of both entities. The known and potential Caspian Basin hydrocarbon reserves are significant. Russian and to a lesser extent Iran continue to dominate the control and distribution of these resources. As a result, Russia and Iran have been able to forward their economic agendas at the expense of the Central Asian countries. The U.S. and EU offer a viable pipeline alternative that allow Central Asian countries to retain greater proceeds from hydrocarbon extraction.

The difficulty lies in encouraging Iran to cooperate with a viable division of the Caspian and Russia agreeing to the construction of sub-surface pipelines under the Caspian Sea. In order to achieve these objectives, the U.S. and EU must skillfully balance hard and soft power to dissuade Russia and Iran while gaining the support of the international community. The U.S. must remain vigilant against an obstinate Iran. However, possible diplomatic overtures with Iran could pave the way for a Caspian Sea boundary agreement. At the very least, if rebuffed by the Iranians, the U.S. and EU can attain international legitimacy that may pave the way to resolve the Caspian Sea border dispute and facilitate pipeline construction without acquiescence from Iran.

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