Over the past ten to fifteen years, the Caspian Sea basin has attracted considerable attention because of its potential as a significant source of oil and natural gas for world markets, and international competition is increasing over the control of these critical resources. Geographically, the Caspian Sea is an enclosed body of water, roughly 1,120 km from north to south and 320 km across, lying directly between the states of Central Asia, Russia, the Transcaucasian republics and Iran. Its salt water connects to the Black Sea through the Volga and Don rivers, the artificial Volga-Don canal, and the Sea of Azov, a branch of the Black Sea. In 1991, during the last days of the Soviet Union, only two independent states – the Soviet Union and Iran – bordered the Caspian Sea basin. But now they have been joined by three new states – Azerbaijan, Kazakhstan and Turkmenistan.

The Caspian Sea basin itself is located at the centre of Eurasia, a region of rich diversity of peoples, nations and cultures. The new countries of the region appear as blots on the map, spots on the backs of Russia, Turkey and Iran. In representations by the Western press, they commonly appear in shabby images of natural disasters, the genocide in Armenia, wild horsemen and smiling centenarians in Georgia, and as foreign and barbarous Muslims in Azerbaijan, the North Caucasus, and Turkmenistan. But this is a historically cramped understanding of the area, whose culture and history predates much of that found in Europe. The positive images that survive exist as romantic memories of the Silk Road merchant routes that connected Northern and Eastern Europe with Asia Minor and the Greek colonies thousands of years ago. The Argonauts were the first “foreign tourists”, so to speak, that ever reached the Caspian region, and Prometheus, who brought fire to mankind in defiance of Zeus, was said to have been chained to a cliff in the region (Owen, 1975; McLaurin, 1896).

Thousands of years have passed since then, but people are still attracted to the Caspian Sea basin. In modern times, the attraction has been related to the region’s natural resources, especially its vast oil and natural gas reserves. In a much earlier time, before the mid-Nineteenth century, the region was one of the best-known oil producers in the world. Before the coming of the Russians, petroleum extraction was very primitive, and for centuries, petroleum traders extracted their product with rags and buckets. By the time of the Tsarist government in 1871, the modern petroleum industry began to take form with the drilling that occurred in what is now the giant Bibi-Eybat field in Azerbaijan. By the end of the Nineteenth century, the area experienced its first contact with Western capital as large foreign oil companies entered the area and two competing families began to dominate the Caspian oil industry. The Nobel brothers arrived first, followed by the French branch of the Rothschilds (Tolf, 1976) and, in 1898, Russia became the world’s largest oil-producing country, holding on to this distinction until 1902, with more than 50% of the world’s oil produced in the Caspian region (Gokay, 2001).

With the collapse of the Tsarist Empire, civil war spread throughout the region until the Bolshevik revolutionaries finally seized control in 1921 (Gokay, 1997). Under Stalin’s First Five-Year Plan in 1927, the Soviet state assumed full responsibility for the production of Caspian oil, providing for central planning, determining sites, organizing production, and arranging for transport. Oil production quickly recovered from the effects of war, revolution and civil war, with 1928 output surpassing the former 1901 peak. The Soviet oil industry continued a period of rapid growth during the following decade, with most of this production coming from the Caspian Sea region (Goldman, 1980).
Caspian oil played a major strategic role during the First and Second World Wars, and protecting the Caspian oil fields was always a Russian/Soviet and Allied priority. The German leadership clearly recognized its importance to its expansionist ambitions and its form of mechanized warfare. Initially, they sought access to the oil by negotiation and, following the 1939 German-Soviet Pact, Soviet oil from the region accounted for fully one-third of German oil imports. When the German-Soviet rapprochement failed with Hitler invading the Soviet Union, the Nazi armies specifically targeted the oil of the Caspian basin. Arguably, the fierce resistance of the Red Army to the southern thrust of Nazi forces that denied Germany its prized Caspian oil was one of the major turning points in the Second World War.

When the Soviet Union dissolved in 1991, the vast oil and gas resources of the Caspian basin were once again open to exploitation by Western corporate interests. A race has now begun among powerful transnational oil giants to secure control, and with the assistance of the most influential Western states, policies have been designed to advance their competition. In the decade since they have entered the region, exploration has confirmed that the Caspian basin contains at least between 70 to 200 billion barrels of oil, or roughly 10% of the world’s reserves. It is also thought that the world’s largest reservoir of untapped oil and gas is to be found in Kazakhstan, Azerbaijan and Turkmenistan, southern republics of the former Soviet Union that make up the greater Caspian basin region. Even though reports of possible and confirmed reserves deposits differ widely, interest in the region continues to accelerate. At stake are billions of dollars in oil and natural gas revenues, as well as the vast geopolitical and military advantages that go to the power or powers that secure a dominant position in the region (Fenyvesi, 1998).

Two basic questions arise around the oil resources of the Caspian: who owns the rich oil and natural gas resources, and who will have the control over the transportation of the Caspian oil and gas to world markets? The answers to these questions will strongly influence how the world economy evolves in this century, and who will sit at the head of the global order that governs it.

### 8.2.1 Geopolitics of Caspian oil

Oil has become the pivot upon which the axis of war or peace rests. This is consistent with a historical pattern where control of precious minerals has always, directly or indirectly, led to war. In the last century alone, oil played a key role in at least ten of the twelve major international conflicts.¹ It seems that of all key elements that are critical to modernization in the Twentieth century, none is more likely to provoke a major war between states than oil, and as oil reserves decline, its importance will only grow in the decades ahead (Homer-Dixon, 1999).

According to estimates, world oil production will begin to reach the peak approximately by 2008 (Hirsch, 2005; Porter, 2005; Gokay, 2006a), which means that the world is depleting oil reserves at a rate of 6% a year. At the same time, demand growth is rising at an annual rate of 2%, which means that the world’s oil industry will have to find the equivalent of 8% a year in newly discovered oil reserves to maintain an orderly oil market (Benner, 2004; Owens, 2007). Unfortunately, discoveries are lagging behind, primarily because new large oil deposits of oil are not being found, and even if they were, there is a considerable time lag between a discovery and turning the oil into a usable energy source. While conservation and renewable energy are much in the news, the reality is that neither of these are likely to make any significant dent in the steadily growing demand for oil products. In this increasingly fragile energy climate, competition for existing proven and prospective reserves is increasing, and the Caspian basin, with its vast fields of untapped oil, has now become the focus in a new version of the “Great Game” (Gokay, 2006b).

Unimpeded access to affordable energy has always been a primary strategic interest of the United States, which is now the only superpower remaining in the post-Cold-War world. American dependency on imported petroleum has been growing since 1972 when domestic output reached its maximum of 11.6 million barrels a day (Deffeyes, 2001). From that point on, United States oil production went into decline, and dependency on foreign sources of oil and gas increased continuously.

For reasons both of world strategy and control over natural resources, the United States administration is determined to secure a dominant role in Eurasia. The immediate task of American power in “volatile Eurasia” has been described as “to ensure that no state or combination of states gains the ability to expel the United States or even diminish its decisive role” (Brzezinski, 1997). These stated United States policy

¹ Particularly the Middle East, home to many of the world’s oil deposits, became a centre of geopolitical and military tension throughout the latter half of the century (for example, oil was a factor in Japan’s decision to go to war against the United States in 1941, and the oil cartel, OPEC, used an oil embargo of sorts in the wake of the Yom Kippur War in the 1970s).
goals include breaking Russia’s monopoly over oil and gas transportation routes, promoting United States energy security through diversified supplies, encouraging the construction of multiple pipelines that go through United States-controlled lands, and denying other potential powers dangerous leverage over the Central Asian oil and natural gas resources. This is a life-and-death struggle to monopolize energy resources, which simply recognizes that oil remains the lifeblood of a modern world economy. The United States status as a superpower requires the control of oil at every stage: from discovery to pumping, to refining, to global transportation networks, and finally to the marketing of oil. The Washington-based American Petroleum Institute, voice of the United States oil industry, has identified the Caspian basin as the area of greatest resource potential outside of the Middle East (Cohn, 2000; Dekmejian and Simonian, 2001; Gokay, 2002a; Sukhanov, 2005). In 1998, when Dick Cheney (United States current Vice-President) was playing a central role in the United States oil industry, he used these words to describe the Caspian basin: “I cannot think of a time when we have had a region emerge as suddenly to become as strategically significant as the Caspian”.3

At stake in this competition is far more than the fate of the resources of the Caspian basin. Caspian oil is “non-OPEC oil”, meaning that supplies from this region are less likely to be affected by the price and supply policies applied by the oil-exporting cartel (Gokay, 2007). Flows of large volumes of Caspian oil through non-OPEC lands would erode the power of the Organization of Oil Exporting Countries (OPEC), as well as its ability to maintain high oil prices and to use oil as a means of political blackmail (Shaffer, 2001).

The West’s concern about OPEC dates back to the oil shock of 1973 that sent the global economy into crisis. Before OPEC was founded, the great oil companies of the West had ruled the oil market. Prior to OPEC’s foundation, the Western oil giants had often retained 65% or more of the revenue from a product that was produced on someone else’s land. Then in 1960, many of the oil producing countries, from both the Middle East and elsewhere, formed a cartel, OPEC, to protect their interests. Currently, members consist of Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, the United Arab Emirates and Venezuela. Ecuador and Gabon suspended their memberships in 1992 and 1994, respectively. Saudi Arabia has traditionally dominated the organization, owing to its enormous oil reserves. The OPEC members produce about 40% of the world’s crude oil. Large non-OPEC producers such as Mexico, Norway and Russia also sometimes go along with the cartel’s position of the day (Gokay, 2006b).

OPEC set itself a clear-cut and seemingly simple goal: to present a common front in negotiations with the giant oil companies, which themselves worked closely together. In this way, OPEC set the stage for a new process in which the producer states would eventually take over some of the functions of the companies, at least in production, and retain a significant amount of the revenues. At first, OPEC had little impact, from its founding in 1960 until 1973. Then, in October 1973, hell broke loose. In 1973, the United States and the Western world were in the midst of an inflationary spiral. The world had become highly vulnerable to commodity cartels, as twenty years of prosperity and accelerating population growth had created heavy demand for energy resources. In the United States, consumer prices were rising at an 8.5% clip, while inflation rates in other nations were often much higher. The demand for Middle Eastern oil had been increasing throughout the industrialized world, and the needs of these countries grew far faster than production. In this period, OPEC was growing stronger, and was determined to increase its share of the profits as well as its influence in world politics (EIA, 2006).

On 17 October 1973, the OPEC countries announced that they would no longer ship oil to states that had supported Israel in its conflict with Egypt – that is, to the United States of America and its allies in Western Europe. At around the same time, OPEC members agreed to use their leverage over the world price-setting mechanism for oil so as to sharply increase world oil prices. The complete dependence of the industrialized world on oil, much of which resided beneath the surface of Middle Eastern countries, became painfully clear to the industrialized countries of the West and Japan, marking a watershed in their relations with the oil producing countries. OPEC’s price hike caused sharply increased inflation in all oil-importing nations.4

8.2.2 Oil pipelines

Getting oil from the Caspian-Caucasian to the world markets is not easy because the Caspian basin is landlocked. When the Soviet Union broke up in 1991, multinational oil companies and governments of the leading world powers wove a tangled web of

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2 US Energy Secretary Bill Richardson telling Stephen Kinzer, “On piping out Caspian oil, United States insists the cheaper, shorter way isn’t better” (Kinzer, 1998).


4 http://news.bbc.co.uk/1/hi/business/689609.stm
competing pipelines, with leading roles played by British Petroleum (BP) and Amoco, which merged in 1998, UNOCAL, Texaco, Exxon and Pennzoil, all of which have already invested more than 30 billion dollars in new production facilities (Kleveman, 2003). This fabric of oil transportation represents a pipeline map around the oil and natural gas resources of the region that connects the area from the Balkans in the West to Afghanistan in the East (Mendes, 2005). The debate over which route to use for the Caspian’s considerable oil reserves has inspired a high-stakes tug-of-war among the countries of the region. At present, the main operational oil export route follows the line Baku-Groznyi-Tikhoretsk-Novorossiysk. Oil exports from this route are dependent on tanker transportation via the Turkish Straits.

The main alternative to this Russian pipeline is the United States-backed Turkish route that runs from the Caspian Sea to the Mediterranean. The Baku-Thilisi-Ceyhan pipeline (BTC) to transport crude oil extracted from the Caspian Sea shelf to the Mediterranean Sea basin was inaugurated on 25 May 2005 near Azerbaijan’s capital Baku. The construction of this United States sponsored pipeline started in 2001, and its final cost totaled well over the 3 billion dollars originally planned. The BTC stretches 1,760 km, including 440 km through Azerbaijan and 250 km through Georgia. The pipeline is designed to carry oil extracted from Azerbaijan’s sector of the Caspian Sea by an international consortium comprising 11 companies. Banks provided 70% of the 3.3 billion dollars it cost to build the pipeline via loans. A large proportion of this debt came from public financial institutions led by the International Finance Corporation (IFC), the part of the World Bank which lends to companies, rather than governments and the European Bank of Reconstruction and Development. This also allowed BP to secure further private investment funding from banks like Citigroup. The additional 30% came in the form of equity (capital provided by the oil companies which hold shares in the project). British oil giant, BP, holds a 30% stake in the consortium running the pipeline. Other consortium members include Azerbaijan’s state oil company SOCAR, Amerada Hess, ConocoPhillips, Eni, Inpex, Itochu, Statoil, Total, TPAO and UNOCAL.

However, many in the oil industry are concerned about a one-pipeline solution (depending on one major pipeline only) because of various tensions in the region, and would prefer a multiple pipeline strategy, including a major route through Iran. Due to the current strained relations between the United States and Iran, the Iraqi route seems uncertain. Yet, given commercial realities, any political opening could shift the terms of the pipeline debate very quickly (Gokay, 2001).

8.2.3 NATO’s bombing of Yugoslavia and Caspian oil

The Balkans states are crucial to all these oil pipeline routes because oil destined for Western Europe must pass through one of them at one point or another (Yannopoulos, 2001). During the 1999 Kosovo war, some critics of NATO’s bombing of Yugoslavia alleged that the United States and its allies in the West were seeking to secure a passage for oil from the Caspian Sea (Gokay, 2002b; Stone, 2005). This claim was mocked by the British Foreign Secretary, Robin Cook, who observed that “there is no oil in Kosovo” (Lloyd, 1999; Monbiot, 2001a). Of course, this was true but irrelevant; the facts are actually very different. In 1997, BP and the Texas construction giant Halliburton proposed a pipeline that would go from Burgas in Bulgaria through Skopje in Macedonia to Vlore, a port in Albania (Monbiot, 2001b). And on 2 June 1999, the United States Trade and Development Agency, which had financed initial feasibility studies, announced that it had awarded a half-million dollar grant to Bulgaria to carry out a feasibility study for the pipeline across the Balkans (Wihbey, 1999). It seems, in practice, that its location makes the Balkans a key regional stepping stone to oil interests in Eurasia (Zemenides, 1997).

In 1996, the Bulgarian daily Continent reported that the Albanian, Macedonian and Bulgarian Oil (AMBO) decided to begin a construction of an oil pipeline which would connect the Black Sea with the Adriatic Sea. The pipeline would be 907 km long and would transport oil from Russia, Azerbaijan and Kazakhstan, with a capacity of 750,000 barrels daily. The construction, as estimated, would cost 825 million dollars, and AMBO company has already obtained exclusive rights from the governments of the three countries to carry out this project. According to Gligor Tashkovitch, the head of AMBO, “the great advantage of this route is that it crosses the entire Balkan


7 http://www.ncpa.org/bothside/krt/krt041901a.html

peninsula, thus completely eliminating the danger of an oil spill in the Aegean”.

In the same period, it was also claimed by many commentators that the main global objective of the United States-led NATO operations in Kosovo was to pacify Yugoslavia so that transnational oil corporations could secure the oil transportation route from the Caspian Sea into Central Europe (Schwarz and Layne, 1999; Gowan, 2000; Fouskas and Gokay, 2005). Three weeks after the beginning of the war, General Michael Jackson, commander of KFOR (Kosovo FORce) in Macedonia and soon in Kosovo, confided to the Italian daily, Sole 24 Ore: “Today, the circumstances which we have created here have changed. Today, it is absolutely necessary to guarantee the stability of Macedonia and its entry into NATO. But we will certainly remain here a long time so that we can also guarantee the security of the energy corridors which traverse this country”. After NATO’s bombing campaign ended in March 1999, the United States spent 36.6 million dollars to build Camp Bondsteel in Southern Kosovo, the largest American foreign military base constructed since the Vietnam War. Camp Bondsteel was built by Brown and Root, a division of Halliburton, which was the world’s biggest oil services company and, at the time, headed by the current United States Vice-President, Dick Cheney. Rivalries being played out in the Caspian basin will have a decisive impact in shaping post-communist Eurasia and determining United States influence in the development of the region (Race […], 1997). It also has worldwide, not just regional consequences. For example, expansion of United States influence in Eurasia poses a direct and immediate threat to China because, among other factors, the expansion of the Chinese economy is directly dependent on access to petroleum. Its oil needs are expected to nearly double by 2010, which will force the country to import 40% of its requirements, up from 20% in 1995 (Luf, 2007).

China’s increasing demand for oil on the world markets has been a major factor in the rise in oil prices, and will be the most important factor in determining future oil pricing. Currently, China is the world’s number two oil consumer after the United States, and since 2000, has accounted for 40% of the growth in the world’s demand for crude oil. Presently, China’s proven oil reserves stand at 18.25 Gbl, and oil imports account for one third of its crude oil consumption. However, in response to a burgeoning demand for energy, the Chinese government has:

- Actively explored developing new nuclear power facilities.
- Reassessed its use of coal and natural gas.
- Sought the development of renewable energy.
- Promoted energy conservation and encouraged investments into energy-friendly technologies, such as hydrogen-powered fuel cells and coal gasification.

This is all in a concerted effort to support an 8-10% rate of growth in its gross domestic production (Berthelsen, 2003; China […], 2005).

China has now become an active player in this new “Great Game” by making a secure access to the oil and gas reserves of the Caspian basin a cornerstone of its economic policy. In 1997, the China National Petroleum Corporation (CNPC), which employs more than 1.5 million people, acquired the right to develop two potentially lucrative oilfields in Kazakhstan, outbidding United States and European oil companies. China’s longest pipeline, running 4,200 km from the Tarim Basin of Xinjiang province to a network of gas and oil pipelines in the major east coast metropolis of Shanghai, came into operation in August 2004. In October 2004, construction began on a 988 km pipeline from Atasu in Northwest Kazakhstan to Alatow Pass in Xinjiang that will carry 10 million tonnes of oil a year once it is completed. Feasibility studies are also underway for the construction of over 3,000 km of gas pipeline from Turkmenistan to Xinjiang, and the Chinese government is also helping to develop oil fields in Turkmenistan and hydroelectric power projects in Kyrgyzstan and Tajikistan (Glenny, 2003).

A number of overlapping power blocks are emerging in the Caspian basin that have a shared interest in the development of its oil and gas resources. Theoretically, oil and gas pipelines to China from Turkmenistan and Kazakhstan could be extended to link into the pipeline networks of both Russia and Iran. This model has been

10 It is clear that Jackson is referring to the 8th Corridor, the East-West axis which ought to be combined to the pipeline bringing energy resources from Central Asia to terminals in the Black Sea and in the Adriatic, connecting Europe to Central Asia. From East to West, the 8th Corridor connects the Bulgarian Port of Burgas (also situated on the Black Sea and in competition with Constanza) to Skopje (Macedonia) and to the Albanian port of Dürres. And from there, it connects with two Italian ports, Bari and Brindisi. (Sole 24 Ore, 13 April 1999); http://www.iacenter.org/warcrime/mcollon.htm
The Caspian Sea basin, with its huge reserves of oil, natural gas and strategic position, is a key arena of rivalry between the United States, major European powers, Russia, Japan and China. All of the major powers, along with transnational oil giants, have been seeking alliances, concessions and possible pipeline routes in the region. In the midst of this increasing competition, an open conflict between the United States and China seems likely as China’s growing reliance on Eurasian oil will ultimately bring it into direct confrontation with the United States as the world’s largest energy consumer (Norton-Taylor, 2001; Wolfe, 2004; Leverett e Bader, 2005).

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