Russia Homes in On Caspian Oil

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The creation of a new oil exploration consortium combining three of Russia's major energy companies highlights Moscow's growing interest in the Caspian region.

Moscow's attempts to become a leading competitor in the Caspian Sea oil race were strengthened a month ago with the formation of a new exploration company aimed at expanding Russian involvement in the region.

The new consortium, the Caspian Oil Company, brings together the country's largest oil company, Lukoil, and the smaller Yukos and gas monopoly, Gazprom.

The company's exploration work will focus on the Russian sector in the north Caspian. Lukoil is already drilling in the area and in mid-August the company announced a second of its drilling wells had struck oil.

Analysts believe the arrival of COC should greatly enhance Russia's status in the region and could underpin a shift in the balance of power should the much-heralded Baku-Ceyhan pipeline, the pet project of the United States, founder.

Company officials stressed COC's ambitions were not limited to developing Russian oil deposits, but that joint projects with neighbouring Caspian states were also on the cards.

At the COC signing ceremony on July 25, Gazprom's Deputy Chairman, Valery Remizov, said, "Each of us has an interest in the Caspian region, the more so in that Russia has a geopolitical interest there."

The opening of Lukoil's first Caspian oil deposit - Khvalynskiy-1 - in March gave new impetus to Russia's efforts in the region. But the real push for a Russian renaissance in the Caspian began with Vladimir Putin's election as Russian President.

As the famous United States analyst, Martha Brill Alcott, said, "Russia doesn't intend to sit back with its arms folded when, from her point of view, the United States is attempting to take away its vital strategic interests."

In his open letter to voters in February, Putin stressed the need to reclaim crucial zones of national interest, including the Caspian Sea. The Kremlin's new policy of "healthy pragmatism" exploits the tried and tested methods of Russia's principal competitor, the United States - economic penetration, through the oil and gas sectors, to serve geo-political interests.

On April 21, Putin called for Russian companies to intensify their activities in the Caspian oil and gas industries. Putin said, "The key issue in the resolution of this problem is the defence and stability of the state's and company interests. We can't achieve anything through the efforts of the state alone."

In May, Putin created a new government post specifically aimed at pushing Russia's interests in the Caspian. A former Russian fuel energy minister, Viktor Kalyuzhny, took on the task.
Moscow enjoys several tactical advantages over the USA in the Caspian area. The Baku-Ceyhan pipeline, scheduled for completion in 2004, faces several serious hurdles, not least the enormous cost of the project - estimated at $2.4 billion.

Analysts at the London City Institute estimate that for the completed pipeline to be profitable it would need access to deposits in excess of 6 billion barrels. Azerbaijan does not as yet control such large deposits. Neighbouring Kazakstan, meanwhile, has made no secret of its intention to use multiple routes to export its oil. Without guaranteed exclusive access to Azeri, Kazak and Russian oil, the pipeline could struggle to make a profit.

Meanwhile, Washington's relations with several of the Caspian Sea states have cooled in recent months. The governments' of Kazakstan and Azerbaijan in particular have taken exception to US criticisms of their democratic credentials and human rights records. The Kremlin is perceived as being less fussy about such matters.

An increase in activity by Islamic fundamentalists across several Central Asian republics has also enhanced Russia's position in the region. Moscow is much better placed to act as a guarantor of security to countries like Kazakstan, than Washington.

Russia recently increased Kazak oil exports across its territory by 3 million tons a year to 10 million tons - a three-fold increase on 1998 figures. Reconstruction of the Atyrau-Samara oil pipeline, with a capacity of 15 million tons, is also under discussion as is the construction of a new pipeline from Tengiz to Novorossiysk.

Russia is also moving in on Turkmenistan. In late June, US giant General Electric pulled out of a proposed gas pipeline project from Turkmenistan to Turkey. The pipeline was intended to free Turkmenistan from Russia's transportation monopoly. Shortly after the pipeline deal fell through, Gazprom secured access to gas deposits in Turkmenistan and the opportunity to develop a "blue stream" pipeline project along the Black Sea bed to Turkey.

Nevertheless, Turkmenistan still seeks a non-Russian outlet for its gas resources. As do Azerbaijan and Kazakstan.

At the same time, the six Caspian Sea states are still arguing over the division of the Sea and its resources in the post-Soviet world. At present the situation resembles something of a free-for-all.

A Moscow-based oil analyst added, "It's a situation where whoever develops reserves first has right of way."

Russia favours dividing the seabed. In 1998 Moscow and Astana signed a bilateral agreement delimiting the northern sector seabed to facilitate oil exploration.

Azerbaijan, Turkmenistan and Iran criticised the agreement. Baku favours splitting the Caspian into national sectors. Turkmenistan, although generally opposed to a complete division of the sea, is demanding some areas also claimed by Azerbaijan. Iran, meanwhile, seeks continued recognition of the old Soviet-Iranian treaties.

If Russia has secured some short-term tactical gains in recent months, Moscow's long-term game plan hinges on resolving the legal status of the Caspian Sea. The arrival of a big player such as COC could
improve Russia’s hand.

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