

Oil and Gas Exports from Central Asia Should Bypass Russia and Iran—What the U.S. Can Do

Luke Coffey

KEY TAKEAWAYS

The Caspian Sea is an important region for the U.S. and Europe, with energy resources that could play an important role in loosening Europe's dependence on Russia.

A trans-Caspian pipeline to get more oil from the Caspian's eastern shore to global markets by bypassing Russia would have many benefits, including for the U.S.

The U.S. and Europe should support and empower oil and gas transportation initiatives that connect both shores of the Caspian while bypassing both Russia and Iran.

The Caspian Sea is an important, if often-overlooked, region for the United States as well as for Europe. In particular, the region's great energy resources could play a significant role in helping Europe to loosen its dependence on Russia for oil and gas. It is strategically important for Europe to access as much oil and gas from the region that bypasses Russia as possible. Europe already imports oil and gas from the Caspian, primarily from Azerbaijan, but it desperately needs oil and gas from Central Asia, too. To this end, the U.S. and Europe need to support oil and gas transportation initiatives that connect the eastern shore of the Caspian with the western shore of the Caspian, while bypassing both Russia and Iran.

This paper, in its entirety, can be found at <http://report.heritage.org/ib5048>

The Heritage Foundation | 214 Massachusetts Avenue, NE | Washington, DC 20002 | (202) 546-4400 | heritage.org

Nothing written here is to be construed as necessarily reflecting the views of The Heritage Foundation or as an attempt to aid or hinder the passage of any bill before Congress.

Kazakh and Turkmen Oil

In early 2019, Turkmenistan unexpectedly stopped transporting oil to Azerbaijan,¹ for further transport in the global market via the Baku-Tbilisi-Kara (BTC) pipeline, deciding instead to send its oil to the Russian port of Makhachkala—and then on to Russia’s Black Sea port of Novorossiysk to access the global market. Ashgabat’s motives are unclear, but it is reasonable to assume that this change was a result of pressure from Moscow.

Kazakhstan has been transporting its oil to Europe via Novorossiysk through the Caspian Pipeline Consortium (CPC) pipeline. However, since Kazakhstan’s Kashagan field is increasing production, it is likely that the CPC alone will not be able to handle this extra volume.² Since the BTC pipeline currently has spare capacity, and because it bypasses Russia, using the BTC pipeline in addition to the CPC makes sense for Kazakhstan and should be encouraged by the U.S.

A Trans-Caspian Gas Pipeline

A pipeline is the only economically viable way to move natural gas across the Caspian Sea. This means that right now there is no profitable way to get Central Asia’s gas to Europe without going through Russia or Iran. The idea of constructing a natural gas pipeline across the Caspian has been debated for decades. However, there are three reasons to push for a Trans-Caspian Gas Pipeline now:

- 1. Progress is being made with new pipeline projects in the region that would benefit from Turkmen gas.** Azerbaijan started delivering gas to Turkey in mid-2018 via the Trans-Anatolian Pipeline (TANAP),³ and is poised to send gas to Italy via the Trans Adriatic Pipeline (TAP) later this year. Together with the South Caucasus Pipeline, this is known as the Southern Gas Corridor (SGC). With an expandable capacity of 31 billion cubic meters (bcm),⁴ the SGC will be able to deliver gas from any future Trans-Caspian Gas Pipeline.
- 2. Europe, Azerbaijan, and Turkmenistan all need a Trans-Caspian Gas Pipeline, albeit for different reasons.** Europe is actively seeking alternatives to Russian energy resources. Azerbaijan is trying to cement its position as the region’s most important energy player. Turkmenistan faces a severe economic crisis and needs to find new markets for its natural gas.

MAP 1

A Caspian Interconnector

Building an interconnector between two offshore gas fields in the Caspian Sea—Azerbaijan’s Azeri Chirag Guneshli and Turkmenistan’s Banka Livanova—would cost about one-third as much as building a full Trans-Caspian Pipeline. Additionally, it would help build trust between the two nations, and would be less likely to draw objections from Russia or Iran.



SOURCE: Heritage Foundation research.

IB5048  heritage.org

3. The Convention on the Legal Status of the Caspian Sea was agreed in 2018, paving the way for a potential pipeline. Signed by all five Caspian littoral countries, this allows pipelines to be established with only the consent of the countries involved in the project.⁵

While the ultimate goal would be a fully fledged pipeline delivering natural gas from the eastern shore of the Caspian to the western shore, Baku and Ashgabat ought to be more modest with their ambitions at first.

For the Turkmen in particular, lowering the level of ambition would be difficult. Ashgabat has already constructed the so-called East-West pipeline, a 483-mile natural gas pipeline connecting the country’s Mary province in the east with Turkmenistan’s Caspian coast.⁶ The East-West Pipeline has the potential to transport 30 bcm annually.⁷ Understandably, Turkmen authorities want any future Trans-Caspian Gas Pipeline to match this capacity, but this is an unrealistic goal in the beginning.

Starting with an Interconnector

Instead of constructing a pipeline first, Baku and Ashgabat should focus on constructing an interconnector between Azerbaijan's offshore Azeri Chirag Guneshli gas field and Turkmenistan's Banka Livanova offshore gas field. Over time, options should be explored to include Kazakh gas fields using interconnectors, since some Kazakh fields are in close enough proximity to be commercially viable.

This modest approach would accomplish three things early on:

1. **It would be a proof of concept.** It would be a tangible, quick, and affordable way to demonstrate that the eastern side of the Caspian can be connected to the western side of the Caspian by a pipeline to deliver natural gas. Building an interconnector linking Turkmenistan and Azerbaijan's existing gas fields would need to be only approximately 42 nautical miles long, and could be constructed for only \$500 million—compared to an estimated \$1.5 billion for a full Trans-Caspian Pipeline.⁸
2. **It would help to build confidence and trust between Azerbaijan and Turkmenistan.** These two countries do not have an agreement on their maritime borders in the Caspian, and there has been tension and confrontation between the two in the past.⁹
3. **It would likely be more politically acceptable to Iran and Russia than a full-blown pipeline.** Russia and Iran are heavily engaged elsewhere around the world, it is very possible that an interconnector would be below the threshold that would otherwise ring alarm bells in Moscow and Tehran.

U.S. Political Support Needed

Completing the Trans-Caspian Gas Pipeline and getting more oil from the Caspian's eastern shore to global markets by bypassing Russia has many benefits, even for the United States. Greater European energy security will lead to more stability. This, in turn, could indirectly affect U.S. treaty obligations under NATO. In order to realize these security benefits, the U.S. should:

- **Offer political support for the construction of the Trans-Caspian Gas Pipeline and the Southern Gas Corridor.** As Europe seeks alternatives to Russian gas, the Southern Gas Corridor and

completion of a Trans-Caspian Gas Pipeline will play important roles. Furthermore, the construction of the Trans-Caspian Gas Pipeline will help to ease regional tensions between Azerbaijan and Turkmenistan.

- **Encourage regional countries whenever possible to use pipelines and infrastructure that bypass Russia to get oil and gas to global markets.** The BTC pipeline, and the soon-to-be operational Southern Gas Corridor, both have capacity that needs to be filled. Instead of using Russian pipelines to get oil and gas to global markets, the U.S. should strongly encourage Turkmenistan and Kazakhstan to seek non-Russian oil and gas transport options. In addition to not relying on Russia to transport energy, using the BTC pipeline and the Southern Gas Corridor offers more opportunities to integrate regional energy transportation.
- **Show a more visible U.S. presence in the region.** Although former National Security Advisor John Bolton visited Baku in 2018, the most recent Cabinet-level visit to the Caspian region was Hillary Clinton's South Caucasus tour in 2012. A good way to start re-engagement could begin easily and symbolically with a few high-level visits by U.S. officials. The U.S. should send Cabinet-level visitors to build relations in the region.

Benefits for the U.S.

The Caspian region has been, is, and will continue to be an area of global geopolitical importance and competition. If the U.S. is to have a grand strategy to deal with a resurgent Russia and to improve Europe's energy security, policymakers in Washington cannot ignore the region.

Luke Coffey is Director of the Sarah and Douglas Allison Center for Foreign Policy, of the Kathryn and Shelby Cullom Davis Institute for National Security and Foreign Policy, at The Heritage Foundation.

Endnotes

1. Olga Yagova and Gleb Gorodyankin, "Oil Exports from Ceyhan Poised to Fall Due to Turkmen Diversion," Reuters, January 25, 2019, <https://uk.reuters.com/article/uk-oil-russia-turkmenistan/oil-exports-from-ceyhan-poised-to-fall-on-turkmen-flows-diversion-sources-idUKKCNIPJ0ZX> (accessed March 16, 2020).
2. "Kazakhstan's Kashagan Oil Field Seen Reaching 500,000 b/d from 335,000 b/d Now: Eni," *Hellenic Shipping News*, February 6, 2018, <https://www.hellenicshippingnews.com/kazakhstans-kashagan-oil-field-seen-reaching-500000-b-d-from-335000-b-d-now-eni/> (accessed March 16, 2020).
3. "Turkey Opens TANAP Pipeline that Will Bring Azeri Gas to Europe," Deutsche Welle, December 6, 2018, <https://www.dw.com/en/turkey-opens-tanap-pipeline-that-will-bring-azeri-gas-to-europe/a-44192422> (accessed March 16, 2020).
4. Faud Shahbazov, "Southern Gas Corridor Project Opening New Long-Term Opportunities for Europe," *Eurasia Daily Monitor*, June 7, 2018, <https://jamestown.org/program/southern-gas-corridor-project-opening-new-long-term-opportunities-for-europe/> (accessed March 16, 2020).
5. Olzhas Auyezov, "Russia, Iran, and Three Others Agree Caspian Status, But Not Borders," Reuters, August 12, 2018, <https://www.reuters.com/article/us-kazakhstan-caspian-borders/russia-iran-and-three-others-agree-caspian-status-but-not-borders-idUSKBN1KX0CI> (accessed March 16, 2020).
6. Olzhas Auyezov, "Turkmenistan Boosts Gas Export Capacity with East-West Link," Reuters, December 23, 2015, <https://www.reuters.com/article/turkmenistan-pipeline/turkmenistan-boosts-gas-export-capacity-with-east-west-link-idUSL8N14COGT20151223> (accessed March 16, 2020).
7. "Turkmenistan Completes East-West Gas Pipeline," *Eurasian Business Briefing*, December 31, 2015, <https://www.eurasianbusinessbriefing.com/turkmenistan-completes-east-west-gas-pipeline/> (accessed March 16, 2020).
8. Private author interviews with government and business officials in Azerbaijan.
9. Dilara Sadikhova, "Rethinking Turkmenistan-Azerbaijan Relations," *International Public Digest*, November 15, 2017, <https://intpolicydigest.org/2017/11/15/rethinking-turkmenistan-azerbaijan-relations/> (accessed March 16, 2020).