ENERGY POLITICS: A CRITICAL ANALYSIS OF KAZAKHSTAN-U.S.RELATIONS

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Abstract

As being a young sovereign state, Kazakhstan had developed a close relationship with the U.S. ever since it gained independence from the Soviet Union. Kazakhstan consists huge deposits of oil and natural gas and bordering the Caspian Sea that attracts the interests of energy consuming countries of the world. The U.S is much interested in Kazakh’s huge natural resources, therefore it promoted many U.S. companies to invest in Kazakh’s energy sector. Due to the largest foreign investor in the development of Kazakh economy, the U.S tried to establish its hegemony in Kazakhstan as well as in the Caspian Sea by encouraging its economic assistance for the development of the region. On the other hand, Kazakhstan also needs the U.S assistance and investment due to its landlocked location and weak infrastructure.

This article examines the role of oil and gas for determining Kazakh economic relations with the U.S. It discusses that Kazakhstan has been following the Multi-vector foreign policy due to geopolitical location and consisting huge natural resources. On the other hand, it will also evaluate the pipeline politics and Russian engagement in the region for oil and natural gas resources of Kazakhstan that hinders the flow of Kazakh-U.S relations.

Key words: energy politics, Caspian Sea, U.S investment in Kazakh economy, geopolitical location, oil and gas pipeline

Introduction

After the disintegration of the Soviet Union and getting independence, Kazakhstan’s external policies are guided by hydrocarbon reserves. Energy is the most prominent factor of Kazakhstan that shapes its foreign relations with Russia, China, U.S, EU and others. Due to vast natural resources inside the borders and the Caspian region, Kazakhstan attracts the powerful energy consuming countries of the world which create ‘new great game’ around the Caspian Sea. Since the independence of the country, Kazakhstan pursued a Multi vector foreign policy which purports to keep a balanced relations with its great neighbors Russia and China and global
superpower the U.S by protecting Kazakh sovereignty. After the collapse of the USSR, Kazakhstan was facing a big challenge to its nation building program and wanted to establish the new state structures along with establishing a new legal and juridical framework and a new institutional infrastructure to survive as an independent country. To accomplish this goal, Kazakh president Nazarbayev had immediately introduced macroeconomic reforms and established the legal and regulatory structure of the individual economy. He had initiated some liberal reforms, particularly in the economic sector and also opened its market for foreign investors in order to the development of the economy of the country. Undoubtedly, the U.S was the first country to recognize Kazakhstan’s independence on 25 December, 1991 and the U.S. had developed a close relationship with Kazakhstan and both countries had deep cooperation in a variety of areas including nuclear non-proliferation, economic development and energy extraction. As a consequence, the countries national leadership and policies of economic reforms and liberalization of trade opened a new door for western countries to come and invest here. This policy boosted Kazakhstan’s industrialist output, especially in hydrocarbon production. These factors had contributed Kazakhstan to achieving gross domestic product growth rates of 9 to 12% annually between 2000 and 2006 (Cohen, 2008:14). Kazakhstan is a member of international and regional organizations such as NATO, OSCE, CIS, SCO, OIC, and WTO and so on to counterbalance to each other through pursuing multi-vector foreign policy by securing national interest.1

**Energy Resources of Kazakhstan and Economic Engagement of U.S. in Kazakhstan**

Kazakhstan is the most economically developed countries in Central Asia and Kazak economy heavily depends on natural resources, so here it becomes necessary to know the natural resources of the country. Kazakhstan has an important role in energy production and became the global energy suppliers in the world. The country already possesses 30 billion barrels of proven oil reserves, which ranks Kazakhstan in the 11th position in the world (Cohen, 2008:61). Kazakhstan is ranked among the top leaders of the world in terms of reserves. In hydrocarbons 12th, in coal 7th and uranium it is ranked 2nd as per the current resource base of the energy sector (Dzhantureyeva: 2015). These natural resources invited American companies for investing

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in the Kazakh oil fields, like the Chevron, American Company, one of the largest international oil companies and also is the largest producer in the production of hydrocarbons in Kazakhstan. Chevron has been working in Kazakhstan even during the Soviet era and in 1993, Chevron became the first major Western oil company to operate in Kazakhstan. Kazakhstan has been a focus point of U.S. oil effort. The American companies such as Chevron, Texaco, Exxon Mobil, ConocoPhillips, and Kerr-McGee/Oryx are largely engaged in Kazakh projects such as Tengizcheroil (TCO), AGIP KCO, Caspian Pipeline Consortium, Karachaganak Integrated Organization, etc.² The most important oil fields in Kazakhstan are: Tengiz field, the Karachaganak, and the Kashagan. Some experts believe that the development of new oil fields such as Kashagan (recoverable reserves: 13bn barrels) will make Kazakhstan one of the world's top ten oil-producing nations³. The Tengiz Field is among the top 10 oil producing fields in the world. The government of Kazakhstan entered in negotiations with Chevron in the early 1990s and formed a Tengizcheroil Limited Liability Partnership (LLP) in 1993. Kazakhstan’s largest oil producer Chevron-led Tengizcheroil (TCO) is a Kazakhstani joint venture between Chevron (50% share in the consortium) ExxonMobil (25%), KazMunaiGas (20%) and LukArco (5%)⁴. The aim of this Tengizcheroil is to develop Tengiz field located in the Atyrau region of Kazakhstan, to protect or save environment, to respect Kazakh community and achieve a superior operational performance. TCO is mainly busy with geological investigation, production and selling of hydrocarbon and also engaged to produce oil, gas, LPG and sulfur. Apart from this, TCO has a significant contribution in developing not only Kazakh economy, but also for the welfare of Kazakh’s citizens. For example, from 1993 to 2012, the direct financial payments by TCO in Kazakhstan amounted to US $74.2 billion, including the acquisition of goods and services from local producers and suppliers, the salaries of local employees, dividends to the Kazakh party, payments to state enterprises, as well as taxes and royalties transferred to the state budget⁵. The company is also providing 85% employments to Kazakh people. During the 20th

⁴ Tengizcheroil (Online web) Accessed 2 January 2014 URL: http://www.linkedin.com/company/tengizcheroil
anniversary of joint venture Tengizcheroil in April 2013, Kazakh president Nursultan Nazarbayev stated that "Within 20 years, Chevron has invested $20 billion in the project to develop the Tengiz deposit and Kazakhstan made a profit of $77 billion” (Mukhtarov: 2013). Due to Kazakh’s natural resources, the western companies were heavily involved in Kazakhstan and the key issue for American companies with investments in Kazakhstan has been at the heart of U.S. foreign policy. In 2008, Dave O’Reilly, as a Chevron CEO, stated that "Chevron is proud to be the first Western oil company to invest in Kazakhstan and we're prouder still to think of what we've built together”6. Chevron is presently involved not only in the development of the Tengiz field, but also in the major Karachaganak, Kashagan, Korolev oil fields as well as in the expansion of the Caspian pipeline consortium (CPC) pipeline. The reserves of Korolev are estimated to be 2 billion barrels oil and the production started in 2001. In 2012, TCO had extracted 24.2 million tons of oil that was more than 30% of the country’s production7. The above fields are so important that it could be said that Kazakhstan’s future as an oil producer and exporter depends on the development and expansion of these fields. Kazakhstan is empowering itself as a largest oil producer in the forthcoming decade. The petrodollar of the republic of Kazakhstan helps it to integrate with the international economic institutions.

Energy and Economic Relation as a Factor of Bilateral Relations

The economic relations between these two countries are heavily determined by the energy sector. Energy is a sphere which demonstrates the interconnections and the interdependence between policy and economy. Thus, energy sphere is one of the basic factors in shaping the bilateral relations between Kazakhstan -U.S. The first step of U.S. foreign policy towards Kazakhstan is to secure energy resources and nuclear disarmament. Close cooperation between these two countries in the energy sector is only possible due to political and economic chaos in Russia. Since independence of Kazakhstan, the U.S.has started to follow a more active policy by providing economic assistance with the aim to diminish the geopolitical influence of Russia in the region. On the other hand, Kazakhstan also needed the foreign investment and it definitely needed the support of the U.S. in terms of geopolitical sphere. In Kazakhstan there are more than

7 Ibid.
180 joint ventures between U.S. and Kazakhstani firms as well as more than 80 U.S. companies which are completely engaged in trade, production and banking. Landlocked position and weak infrastructure of Kazakhstan makes the country lead a more active foreign policy based on the energy factor\(^8\). To invite western companies, Kazakh president has made favorable investment climate in the country and signed a number of treaties. As the U.S. and Kazakhstan Bilateral Investment Treaty and Treaty on the Avoidance of Dual Taxation was signed between both sides in 1994 and 1996. Since 1993 American companies have invested approximately $ 14.3 billion in Kazakhstan. The American companies are mainly investing in many fields such as Kazakhstan’s oil and gas industry, telecommunications, business sectors and electrical energy sectors. The U.S Agency for International Development (USAID) in 1993 has also provided technical assistance program support to Kazakhstan in the fields of privatizations, fiscal and financial policy, commercial law, energy, health care and environment protection with the aim to accommodate Kazakhstan and to support its economic reforms and fully integrate into the world trade system (McDaniel: 2013). Kazakhstan was the first country to share directly in the cost of a U.S. Government’s foreign assistance program in 2006. Therefore, the Clinton administration wanted to encourage multiple pipelines from the Caspian region to Western markets\(^9\).

The 9/11 event primarily emphasized the great shift in the U.S’s foreign policy, after this event energy issues came to second to security. During this period Bush administration also had a deep background and experiences about the oil industry because President Bush was born and grew up in an oil independent state, Texas. Since the independence of Kazakhstan, the country is following a policy for U.S “come and invest” here. To achieve this goal, the leaders of both these countries have conducted many high level visits, as Kazakh foreign minister Tokayev paid a visit to the U.S. in 2002 and again in 2006. In return, Condoleezza Rice, then the U.S. secretary of state made an official visit in 2005; vice president of U.S, Dick Cheney, went to Astana in May 2006; in December 2010, U.S Secretary of State Hillary Clinton visited in Astana and so on\(^10\). The bi-lateral relation has got its strong root having signed several political, economic, and cultural fields. Moreover, they ensure to strengthen the energy security and the development of

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economic relations through scientific and technical cooperation. As a result, the U.S. is the largest foreigner direct investor in Kazakhstan. For the period 1991 to 2007, American direct investments in Kazakhstan were USD 13.8 billion, which is about 30% of all the direct foreign investment in Kazakhstan. 

During 2001, Kazakhstan and the United States made a successful effort to the creation of U.S.-Kazakhstan Energy Partnership. In 2002, the U.S. recognized Kazakhstan as a market economy. During the period from 1992 -2005, the U.S. aided Kazakhstan with almost US$ 1.205 billion. Since 2002, the Joint Kazakhstan-American Energy Partnership Commission (JEPC) has operated under the chairmanship of Kazakh Minister of Oil and Gas Mynbayev and U.S. Deputy Secretary of Energy Poneman. The purpose of this commission is to develop and to implement an action plan in all areas of energy partnership and the meetings are held annually. On this occasion the 6th U.S –Kazakhstan Energy Partnership took place in Astana in 2009, the U.S. Deputy Secretary of Energy Daniel Poneman and the Republic of Kazakhstan’s Minister of Energy and Mineral Resources SauatMynbayev agreed to work together on energy efficiency, clean energy technologies, diversification of energy sources, promotion of regional power trade, and also improvement of the regulatory environment to facilitate investment in these areas. In 2010, the 7th JEPC meeting took place in Washington and in 2011 the 8th JEPC meeting held in Astana where delegates of these two countries discussed and satisfied their achievements in the field of agriculture including feeding complexes for livestock. On October 15-16, 2012 ninth JEPC meeting took place in Washington and again 10th meeting was held in Astana in 2013. During the ninth meeting, Kazakhstan and the U.S. signed a Joint Action Plan for 2012-2013. The aim of this meeting was to strengthen and promote cooperation in a variety of areas including nuclear security and nuclear power, hydrocarbon resources, renewable energy and energy efficiency and electric power (Weitz: 2012). Kazakhstan has become one of the largest trading partners of U.S and the trade between them rose to $2.743 which amounts to 26% more than the earlier trade of $2.181. The export volume of trade turnover amounted to $1.029 billion, that is 18% increased at the same period of 2010 ($868million). Kazakhstan mainly exported oil

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11 Yesdauletova, A (2009), Op. Cit. 33
12 The Sixth United States-Kazakhstan Energy Partnership Meeting: Joint Statement (Online web) Accessed 8 January 2014
URL: http://photos.state.gov/libraries/kazakhstan/19452/pdfs/U_S_Kazakhstan_Joint_Statement_Energy
products, mineral, chemical and steel products to U.S. The import volume was $1.714 billion that is 30% more than at the same period of 2010 ($1.313 billion). Kazakhstan imports agricultural products and equipments, electronics, transportation equipment, metal goods, chemical products, food etc. Since 2006, Kazakhstan has implemented the Economic Development Program jointly with the U.S. Government, which Kazakhstan has initiated in the period until 2012. The aim of this program was to encourage diversification of Kazakh economy, increase the economy’s competitiveness and achieve sustainable economic growth.

Kazakhstan in the Caspian Policy of the United States

The Caspian region is emerging as an important source of oil and gas in the world market. It is the third largest oil and gas deposits in the world after the Persian Gulf and Russia. The Caspian Sea region is bordering with Russia, Kazakhstan, Turkmenistan, Uzbekistan, Azerbaijan and Iran, is one of the oldest oil-producing areas in the world and is a center hub of global energy production. But Caspian’s littoral states have problem on legal common agreement regarding borders, natural resources and national territory (Kozhabayeva, 2012:9). The Caspian oil and gas, natural resources are located far from export market that relatively requires to develop infrastructure to move oil to the oil consuming countries. After the 9/11 attack on the U.S, the interests of the Western countries have increased in the Caspian Sea. The American move from the Middle East to Russia and the Caspian Sea to find a less expensive source of oil and a desire to reduce its dependence on the Persian Gulf oil and Saudi Arab is due to security threats. Consequently, Kazakhstan and Caspian Sea are the best option for the U.S to fill its oil hunger. The Caspian region became strategically important for the U.S and other members of NATO due to its geopolitical location and natural resources. In this context, U.S. Senator Conrad Burns argued that ‘Kazakhstan’s oil can save the U.S from the energy crisis and reduce the U.S dependence on the Persian Gulf oil’ (Khidirbekughli: 2010: 162).The Caspian Sea is a zone of vital interests for the U.S and Caspian energy resources are the first priority of the U.S. The Chevron Texaco Corporation intends to invest about three billion dollars in the development of the Tengiz oil field (Ibid).

14 Ibid.
15 Ibid.
The Caspian oil could be very important for the world energy stability through the BTC and CPC pipelines which exports Kazakh oil across the Caucasus to Turkey. Hence, Kazakhstan is the main supplier of oil to European and western countries. Therefore, the Central Asian region represents a chess board where the geopolitical game is played by the great powers such as Russia, China, EU and the U.S in which Kazakhstan is the center of this game. The Caspian pipeline consortium (CPC) is situated in western Kazakhstan with the length of 940 miles which transports Caspian oil from the Tengiz field in Russian Black Sea port of Novorossiysk. The Caspian pipeline consortium is a major international crude oil transportation project with the cooperation of Russia, Kazakhstan, Oman and international oil and gas companies such as Chevron, Eni, British Gas, Shell, Rosneft, Lukoil ExxonMobil (Henriksen, 2013:73). The CPC is a multinational consortium, with the Russian government holding 24% of the company’s shares, Kazakhstan 19%, and Oman 7%. Russia is the most benefitted shareholders and more beneficiary than the other countries. Dr. Ian Kalicki, Counselor to the U.S. Department of Commerce, argued that the U.S strongly supports the CPC pipeline and welcome Russian participation in main export route (Khidirbekughli: 2010 162). The CPC pipeline is under the Russian monopoly as it purchases cheap oil and gas from central Asian countries and sells it expensive to European markets. Hence, the Caspian littoral states were eager to the diversification of the pipeline route to get rid of the Russian monopoly, alongwith this the U.S is always a strong supporter of ‘multiple pipeline concept’, and proposed BTC pipeline. This construction of BTC pipeline was a supplement or even substituted for Russia’s ones in the region. Baku Tbilisi Ceyhan is a major infrastructure project which plays an important role to deliver Caspian oil to the world market through the Mediterranean port of Ceyhan. The BTC pipeline system runs 1,110 miles from the Azeri ChiragGuneshli (ACG) oil field in the Caspian Sea to the Mediterranean coast of Turkey in Ceyhan. From there the oil is transported by tanker mainly to European markets. This pipeline carries close to 800,000 barrels of oil a day (or 40 million tons a year) for 1,768 kilometers from the Caspian Sea to the Mediterranean (Roberts:2012). There are also other pipelines such as Baku- Supsa Pipeline and the South

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Caucasus Pipeline (SCP) which brings oil and gas from Baku to Ezerum in Turkey. The SPC pipeline also shares the same corridor as BTC. The reason behind these pipelines is to continue to fill the BTC pipeline because there is no sufficient oil in Azerbaijan’s own Caspian field for the same purpose, so there is a need for additional supplies to continue filling BTC, for this Kazakhstan is the best option which exports over 50% oil and gas through pipelines annually (Hildyard, 2007:1). The U.S strategy behind the construction of the BTC is to cut all links with Russia and Iran as Caspian energy exporter from the former Soviet states by creating a new economic infrastructure. The shift of U.S and European strategy or policy towards Caspian came energetically after the crisis in 2006, when Gazprom, the Russian natural gas company cut off the gas supplies to Ukraine. The Bush administration is very active in the Caspian Sea and showing its willingness to counter the growing influence of Russia in the former Soviet republics (Zastera: 2006:8).

Indeed, the U.S. cannot ignore this fact that any control of natural resources (energy) in Kazakhstan, Russia will be harmful to the energy security for both the U.S. as well as for European countries. This came in reality when in 2002; Russia, Kazakhstan, Uzbekistan and Turkmenistan signed to form a Eurasian Gas Alliance, whose aim was to transport Central Asian gas and oil through Russian export pipelines (Thu, Minh:2010, 69). Thus, through this agreement Russia could use it as an instrument to play a role of big brother in Central Asia in the context of oil and gas transportation. Moreover, in 2007, Russia, Kazakhstan and Turkmenistan are ready to encourage the Prikaspiiski natural gas pipeline, which will be obviously harmful to the U.S. as well as also to EU in getting access to energy resources (Ibid). Undoubtedly, Kazakhstan still heavily relies on Russia to export its natural resources. In this scenario, Kazakhstan cannot neither ignore Russia due to sharing long northern border and strong historical, cultural ties with Russia nor the U.S because it was the first country to recognize Kazakhstan as an independent and sovereign state. On the other hand, Kazakhstan has diversified its energy towards China through Kazakhstan-China pipeline. This pipeline is owned by the China National Petroleum Corporation (CNPC) and the KazMunaiGas Kazakh oil company. The capacity of
this pipeline is 120 thousand barrels per day (~6.0×10⁶ t/a) and it is expected to reach nominal capacity of 20 million tons per year in 2014¹⁹.

Conclusion

The geopolitical location and existing huge natural resources in Kazakhstan as well as Caspian region represent a playground for ‘new great game’ where the U.S, Russia, china and the EU are the main players. The rapprochement of Kazakhstan with America and Russia has increased more opportunities in the economic fields. The U.S does not want to lose superpower status in the world, therefore after the 9/11 incident, the U.S has substantially strengthened its presence in Central Asia not only in the energy/ economic spheres but also in the political and military arenas. Kazakhstan is the focal center of the U.S strategy. But the United States had few economic interests in another area than energy, thus energy factor has heavily determined the economic relations between Kazakh and the U.S. Furthermore, some U.S energy firms have been discouraged in recent years by harsher government terms, taxes, fines and corruption.
Thanks to Nazarbayev for following a balanced multi-vector policy to counterbalance each other, such as the construction of the BTC, CPC, and CAC Pipelines. President Nazarbayev’s pragmatic ‘multi-vector foreign policy’ will be beneficial for the United State in the future because it welcomes a mixture of foreign investors.

References (*Indicates primary source)


