

# ASSESSING ENERGY AND SECURITY ISSUES IN CENTRAL ASIA

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## HEARING BEFORE THE SUBCOMMITTEE ON THE MIDDLE EAST AND CENTRAL ASIA OF THE COMMITTEE ON INTERNATIONAL RELATIONS HOUSE OF REPRESENTATIVES ONE HUNDRED NINTH CONGRESS

SECOND SESSION

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## ASSESSING ENERGY AND SECURITY ISSUES IN CENTRAL ASIA

TUESDAY, JULY 25, 2006

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON THE MIDDLE EAST  
AND CENTRAL ASIA,  
COMMITTEE ON INTERNATIONAL RELATIONS,  
*Washington, DC.*

The Subcommittee met, pursuant to notice, at 2:10 p.m., in room 2200, Rayburn House Office Building, Hon. Ileana Ros-Lehtinen (Chairman of the Subcommittee) presiding.

Ms. ROS-LEHTINEN. The Subcommittee will come to order. Thank you so much. I would first like to thank the audience. I know we have a standing-room-only crowd out there. I hope you will get some seats.

Thank you for attending this hearing today to listen to important issues and thank you to the panelists for being here as well.

The developments in Central Asia are of a tremendous significance to United States energy and security interests in the region. Since gaining their independence from the Soviet Union in 1991, United States focus on Central Asia has increased dramatically, as indicated by American efforts to protect the sovereignty, freedom and democracy of these newly independent states.

Our interests in Central Asia were further magnified after the vicious terror attacks against our Nation on September 11, as greater cooperation with the region was needed to fight Islamist extremists worldwide and to address broader strategic objectives, including the growing problem of dependency on Middle East energy supplies.

Our efforts in the energy arena go hand-in-hand with our political efforts of helping the governments in the region establish stable democratic institutions and protect human rights, while eradicating the illegal drug trade and fighting Islamist terrorism.

Unfortunately, the region's ability to profit from their energy resources in the past has been limited by Russia's monopoly over transporting Central Asia's oil and gas. By continuing to support diversification of pipelines, we will ensure a free flow of energy supplies to Western consumers and expand Central Asia's economy through investment and development.

We would ask our witnesses today to describe the range of U.S. energy concerns and energy interests in the region, in themselves, and their relationship to broader U.S. strategic objectives and needs.

Linked to this is the growing influence of the Shanghai Cooperation Organization (SCO) and what efforts we are undertaking to counter it. As indicated by the developments at the organization's recent summit, Russia and China have intensified their efforts to isolate the United States politically, militarily and economically from Central Asia. Moscow and Beijing were successful in convincing the Uzbek leadership that the United States sought to overthrow their government. This resulted in the closing of an American military base in Uzbekistan last year.

Though unsuccessful, similar efforts were made by Russia and China to pressure Kyrgyzstan to close a strategic United States air base in its country that is currently being used in the counterterrorism efforts in Afghanistan. This undue influence extends into the realm of human rights and political reforms.

At the joint summit declaration on International Information Security, the Shanghai Cooperation Organization leaders expressed concern that modern information and communication technologies presented a danger "for the entire world tantamount to that from the use of weapons of mass destruction."

If we cease pressing the governments in Central Asia on promoting democracy, rule of law, and free trade, we could marginalize the people of those countries, while undermining our long-term efforts to create an environment that prevents the growth of Islamist extremism and ensures long-term stability and prosperity.

By the same token, if we allow ourselves to be marginalized by Moscow and Beijing, we could lose our influence in the region and could fail in achieving our immediate security goals and protecting our energy interests in Central Asia.

We would welcome insight from our panelists today on how to counter the pernicious influence of the Shanghai group. How does, or can, the U.S. approach strike the balance between our efforts at democracy in the region and our security objectives?

Another issue of concern is the Shanghai group's growing closeness with Iran, which has an observer status in the organization and has expressed its desire to become a full member. In light of the Islamist state's confrontational behavior in continuing to fund Islamist terrorist groups like Hezbollah, in pursuing activities that can be used for nuclear weapons and in violation of nonproliferation obligations, we must make it a high priority of United States foreign policy to prevent Iran from gaining influence in Central Asia.

The United States must emphasize to the members of the SCO that enhancing their relationship with a rogue, terror-financing country like Iran will further escalate their own problems with Islamic terrorism.

We would welcome the assessment from our panelists on Iran's objectives in the region and how its growing relationship with Russia and China on the military front and with respect to unconventional weapons, affects United States energy and security interests in Central Asia.

What are your views on the recent talks between the United States and Russia regarding potentially allowing Moscow to store spent nuclear fuel from reactors around the world?

Although this might lead to a breakthrough with Moscow on taking a stronger approach toward Iran, there is also a possibility that this will enhance Russia's dominance over Central Asia.

The relationship between United States energy and security interests in the region are directly related to the ability of the Central Asian states to have stable, democratic governing bodies and free market economies, as well as their ability to confront Islamist terrorist threats and dangers involved in the increasing drug trade.

Again, I thank the members of the panel for being here today, and I look forward to their testimony.

With that, I would like to turn to our Ranking Member, Congressman Gary Ackerman of New York.

Mr. ACKERMAN. Thank you very much, Madam Chairwoman, for your leadership, and especially for calling today's hearing on assessing energy and security issues in Central Asia, a topic that deserves greater thought and consideration by the American people and the Congress than it has heretofore received.

As energy demand continues to increase globally, the strategic importance of Central Asia will become clearer than it is today. In truth, the development of the former Soviet republics into more important energy exporters is probably the only region that has received much attention, inadequate as it may be.

Back in 2001, when the Bush Administration reached out to the former Soviet republics to enable our military operations in Afghanistan, few people considered the long-term implications of our involvement in the region, beyond the at-the-moment need for their cooperation in pursuing the War on Terror.

To understand why Central Asia hasn't been on the radar screen in Washington political circles, I think we should recall the glib promises that were made about the abundance of Iraqi oil that were promised in a post-Saddam utopia. There is no way to deny that our misadventure in Iraq has distracted our Government from a host of issues that have not gone away, while our attention has been fixed on the bloody train wreck that amounts to Bush Administration policy in Iraq.

Likewise, Afghanistan's nascent democracy is still insecure, and the threat from Taliban al Qaeda operatives is growing, notwithstanding the self-satisfied pronouncement from the political trenches of Washington, DC.

While Washington has been distracted, Iran and China have made greater inroads in Central Asia, seeking commercial and security agreements that ensure the flow of petroleum and natural gas to be used or refined and resold. Russia, too, has been active in trying to establish by commerce the dominance it used to enjoy by force.

Russia's appetite for control of petroleum resources in the region is barely concealed. The reality is that most Central Asia petroleum—after transit through Russia—is on its way to the West, and in light of the winter cutoff of Ukraine, this fact should give us some pause for thought.

Moreover, the regimes that have emerged since the end of the Soviet Union are, broadly speaking, friendly kleptocracies. Every one of them has adopted a government model built around what is

politely referred to as a “strongman,” a position commonly known as a dictator.

In their haste to restore order and promote development, many of the Central Asian nations have chosen to push democratic development and respect for human rights off to the side of the road. While America shouts for democracy in the Middle East, our failure to observe and denounce its absence in Central Asia, aside from making us look like a pack of hypocrites, also places us in tacit alliance with the existing regimes.

If one were seeking to understand the dramatic growth of Islamist movements in previously secular Central Asian states, simply looking at government repression would be a fruitful place to begin. It scarcely requires a political science degree to understand that the Central Asian states that have chosen to crack down on political opponents and Islamic groups in the name of the War on Terror are seeking not the common good of a world without terror, but the private good of a kleptocracy to get fat without the irritation of public protest.

If the Bush Administration truly seized the political moment created by 9/11 and renewed appreciation in the United States for the importance of addressing foreign policy issues before they become crises, our policy tools for dealing with Central Asia would be more robust. We would have a broader degree of engagement, a more consistent policy with regard to both the promotion of our values and the commercial exploitation of the region’s petroleum resources, and most obviously, our foreign assistance in the region would not be declining.

Central Asia, I fear, is emerging from a formative period still afflicted by bad governance, weak institutions, and vulnerable to variable whims of superpower self-interest.

It is not too late, however, for us to try to get it right. Consistent U.S. promotion of democracy, good governance and commercial development can still create a better future for the region than the naked self-interest of the other great powers.

Moreover, only the United States has the potential to help resolve lingering conflicts like that between Armenia and Azerbaijan.

There is a limit to how much this country can do, and I understand that the President and the Secretary of State are only human and can only focus on a few crises at a time. But there should be no mistake that the development of Central Asia, either for good or bad, will have significant consequences to the United States for our security, for our economy, and for our values.

A political scientist who worked in the previous Administration observed that during his time in office President Clinton learned the hard way that “Either you do foreign policy or foreign policy does you.” That choice in Central Asia awaits us.

I thank Chairwoman for her leadership, and I look forward to today’s witnesses.

Ms. ROS-LEHTINEN. Mr. Carnahan.

Mr. CARNAHAN. Thank you, Madam Chairman. I want to thank you and the Ranking Member for holding this hearing today regarding energy and security issues in Central Asia. Since they border both China and the Middle East, security concerns in the coun-



tries that comprise Central Asia should be receiving this attention, and I want to thank you both.

We will do everything we can to ensure that the uranium presence in the region does not continue to spread. Expanding capabilities to its recent support of Hezbollah attacks in Israel, the threat of a rogue Iranian nation must be taken seriously. Issues related to energy and security have become increasingly intertwined in recent years.

Though we need to decrease our dependence on foreign oil, we must also make certain that investments in U.S. energy resources are protected throughout the world. Moreover, we need a firm hand to ensure that Iran does not further infiltrate Central Asia, which would have a direct impact on United States and international security.

I look forward to hearing the testimony of the witnesses and thank you each for being here today.

Ms. ROS-LEHTINEN. Thank you so much.

We are pleased also to be joined also by Congresswoman Shelley Berkley from Nevada. We have just made some very enlightening opening statements, one more enlightening than the others.

Ms. BERKLEY. You know, I will pass, since I just arrived.

Ms. ROS-LEHTINEN. Thank you. Good answer.

Let me introduce our first set of panelists.

Ambassador Steven Mann joined the Bureau of South and Central Asian Affairs in May, 2006, following his assignment as Senior Adviser for Eurasia. In the latter position, he represented the United States in several Eurasian conflict negotiations.

From 2001 to 2005, he was a senior United States official responsible for the Caspian energy issues, and he was heavily involved in realizing the BTC pipeline and the successful launch of the Caspian Pipeline Consortium among a wide range of other oil and gas projects.

In 2003, he served on the staff of the Coalition Provisional Authority in Iraq, ending the UN Oil-for-Food Program, and transferring its assets and programs to Coalition auspices.

In 1985 to 1986, Ambassador Mann was a fellow at the Kennan Institute for Advanced Soviet Studies at Columbia. He is a 1991 distinguished graduate of the National War College. Ambassador Mann was born in Philadelphia. He holds an A.B. Degree from Oberlin College and master's degrees from Cornell and Columbia Universities. His languages are Russian and German.

Next we will hear from Lana Ekimoff. Lana Ekimoff is the Director of the Office of Russian and Eurasian Affairs in the Office of Policy and International Affairs at the U.S. Department of Energy. She is responsible for directing and managing the Department's cooperation with the countries in the former Soviet Union. She has been involved with these countries since just before the breakup of the Soviet Union, when the Department initiated bilateral energy talks in this area of the world.

Ms. Ekimoff received a B.A. from Penn State and an M.A. from Case Western, as well as an M.B.A. from George Washington University.

Your full statements will be made a part of the official record. Please feel free to summarize briefly your remarks.

Thank, Mr. Ambassador.

**STATEMENT OF MR. STEVEN R. MANN, PRINCIPAL DEPUTY ASSISTANT SECRETARY, BUREAU OF SOUTH AND CENTRAL ASIAN AFFAIRS, U.S. DEPARTMENT OF STATE**

Ambassador MANN. Thank you, Madam Chairwoman and distinguished Members of the Subcommittee. I am very pleased to be here today to discuss energy and security issues in Central Asia.

Central Asia matters greatly as the world confronts tight energy markets and as we consider ways to strengthen our energy security. This hearing's focus on Central Asia is technically well timed for many reasons, but also, given the inauguration of the Baku-Tbilisi-Ceyhan pipeline on July 13. That pipeline, the centerpiece of the East-West energy corridor, has changed the strategic landscape of Eurasia in a very positive way.

Since the independence of the new Caspian states 15 years ago, the United States has been in the forefront of oil and gas development in the region, and our efforts are paying off. The CPC pipeline from Kazakhstan to Novorossiisk, which opened in 2001, is another major achievement; and we look forward to the opening of the South Caspian gas pipeline later this year.

The spotlight has focused on pipelines, but underlying these mid-stream accomplishments is the exceptional work that has been done in developing new oil and gas fields, notably the massive Tengiz and Kashagan deposits in Kazakhstan. This new non-OPEC oil coming on the market is an important contribution to our energy security.

Kazakhstan will play an even greater role in energy markets in the future, and we are encouraging the Kazakh Government to build on the successful record that our companies have established and widened their role in future oil and gas development.

Major United States oil and gas firms such as Chevron, ConocoPhillips and ExxonMobil have extensive investments in the Tengiz and Kashagan fields. In addition, U.S. oil services companies, and equipment providers such as Parker Drilling, McDermott and Baker Hughes have found promising business opportunities there.

Now, in Turkmenistan, there is less investment, United States and otherwise; and I note, as well, that Turkmenistan remains heavily dependent on the Gazprom pipeline system for the export of its great natural gas reserves. This hearing addresses security issues as well, and it is important to note the role that energy development plays in Central Asian security.

A key question for the resource-rich states of Kazakhstan and Turkmenistan is avoiding the resource curse, using their energy revenues in a way that contributes to stable development, rather than undercutting it. An overriding aspect of security also is supporting these new states and finding new export routes, so that they are not dependent on one company, one route, to export their product.

Our policy of multiple pipelines is a policy of antimonopoly, and we believe that serves the broader interests of our friends in Central Asia very well. So, with the completion of this first phase of

the East-West energy corridor, we must now press on with the second phase of supporting new energy routes out of Central Asia.

The Administration warmly welcomes the interest of Congress in these issues, and we urge Members to increase their interaction with this pivotal region through visits to the region through parliamentary exchanges.

Madam Chairman, thank you very much, and I look forward to your observations and questions.

Ms. ROS-LEHTINEN. Thank you, Mr. Ambassador.

[The prepared statement of Mr. Mann follows:]

PREPARED STATEMENT OF MR. STEVEN R. MANN, PRINCIPAL DEPUTY ASSISTANT SECRETARY, BUREAU OF SOUTH AND CENTRAL ASIAN AFFAIRS, U.S. DEPARTMENT OF STATE

Madam Chairwoman, distinguished members of the Sub-Committee, I am pleased to be here today to discuss energy and security issues in Central Asia. This discussion of engaging Central Asian countries on energy cooperation is very timely as the world confronts tight oil markets and as we consider ways to deepen energy security nationally and globally. This hearing's focus on Central Asia is particularly appropriate given the inauguration of the Baku-Tbilisi-Ceyhan pipeline on July 13, an event which I had the pleasure of attending.

U.S. policy for the development of oil and gas reserves in Central Asia is predicated on the use of best commercial standards and transparency to ensure that energy resources are developed efficiently and for the benefit of the countries concerned. In line with this, we have pursued a policy of encouraging multiple pipelines to afford the countries of the region options for export of their oil and gas. The completion of the Caspian Pipeline Consortium (CPC) pipeline from Kazakhstan to Novorossiisk on the Black Sea in Russia and the inauguration of the Baku-Tbilisi-Ceyhan (BTC) pipeline from Azerbaijan to Turkey are signal successes of this policy. We all can be especially proud of the role that American firms have played in these endeavors. BTC in particular represents a new environmental, social, and design benchmark for energy transport worldwide. The construction of the South Caucasus Pipeline will bring Azerbaijani natural gas to European markets and, ultimately, Turkmen and Kazakhstani gas may cross the Caspian and share this route. Our pipeline policy—a policy of antimonopoly—is changing the landscape of Eurasia in an important and welcome way.

In line with these promising developments, the United States welcomes the June 16 signing by Azerbaijan and Kazakhstan of an agreement to facilitate access of Kazakhstani oil to the BTC pipeline. Such an agreement provides Kazakhstan additional capacity to export the large volumes of crude that will need to reach markets starting in 2009–10, when the Kashagan field is slated to come on stream. We wish Kazakhstan and Azerbaijan well in their next round of negotiations on the host government agreements with the individual oil companies that will protect the interests of governments and project investors alike, paving the way for commercial partnerships and prospective international financing.

U.S. firms are among the biggest investors in Central Asia's energy sector, and this is a welcome development in many ways. Major U.S. oil and gas firms such as Chevron, ConocoPhillips, and ExxonMobil have extensive investments in the Tengiz, Karachaganak, and Kashagan fields. In addition, U.S. oil services companies and equipment providers such as Parker Drilling, McDermott, and Baker Hughes Services International have found promising opportunities. When speaking of oil and gas development, we must keep in mind that regionally Kazakhstan and Turkmenistan hold the largest reserves. Kyrgyzstan and Tajikistan have significant hydroelectric resources, but little oil and gas. Uzbekistan is largely closed to Western companies and has more limited potential.

The extent of Turkmenistan's gas reserves remains unclear, and Turkmenistan is completely dependent on the Russian pipeline system to bring its gas to market. A proposed trans-Caspian pipeline foundered in 2000 when the parties could not reach an acceptable commercial agreement, and little has changed since then.

With the completion of the first phase of the East-West Energy Corridor, we must now press on with the second phase of supporting new energy routes out of Central Asia. We also encourage the Congress to continue to increase its knowledge and understanding of Central Asia through visits and parliamentary exchanges. Such visits, along with student and cultural exchange programs, contribute greatly to bringing the United States and Central Asia closer together.

Countries bordering the Caspian Sea—Azerbaijan, Iran, Kazakhstan, Russia, and Turkmenistan—are significant oil and gas suppliers to world markets, and their importance is growing. The countries of the north Caspian have reached delimitation agreements, but Iran and Turkmenistan have not yet joined these agreements, among other reasons, because of Iranian insistence on its claim to one-fifth of the Sea. Lack of agreement has impeded exploration and development of hydrocarbon resources in disputed waters, and there remains the potential for conflict in the southern Caspian where promising offshore deposits of oil and gas remain to be developed.

*Kazakhstan—Energy*

Given the scope of the energy supply and demand challenges we face today and in years ahead, Kazakhstan can play a very helpful role in addressing the world's energy needs. Kazakhstan and the entire North Caspian region have tremendous resources. At Tengiz, Kashagan, and other fields, nearly 30 billion barrels of reserves are proven; there is potential for up to 100 billion barrels. Natural gas reserves generally range from 65–70 trillion cubic feet, and could be as high as 100 trillion cubic feet. We strongly support the work of U.S. energy companies and their international partners, who are now focused on ramping up production and improving transportation to markets. U.S. energy companies were among the first non-CIS foreign investors in Kazakhstan; we expect American companies to be active in the region for many years to come.

Kazakhstan, a huge country, remotely located, for many years held valuable resources but lacked export routes to global markets. After the breakup of the Soviet Union, Kazakhstan had to rely on Russia's Transneft to carry its crude oil exports. That situation changed in 2001, when the Caspian Pipeline Consortium (CPC) completed construction of a nearly 1,000-mile pipeline from the North Caspian to Novorossiisk, Russia, on the Black Sea. CPC, a joint venture with private partners that include U.S. energy companies, now transports over 600,000 barrels per day, mostly from the Tengiz field, and gas condensate from the Karachaganak field. The partners have drawn up plans to expand CPC capacity to 1.34 million barrels per day by 2009. Those plans have been delayed, however, as Russia expresses concerns over tariffs, corporate governance and management control. We have strongly encouraged the Russian Government to work constructively with CPC partners to resolve these issues and move forward with expansion, particularly as production in Kazakhstan is set to increase.

Overall, Kazakhstan produced about 1.29 million barrels of oil per day (b/d) in 2005, and exported, through CPC and other routes, about one million b/d. The Kazakhstani Government expects production to increase to about 3 million b/d by 2015, especially as the huge Kashagan field comes into production. Moreover, Kazakhstan has expanded production of natural gas in recent years, and expects to reach 570 billion cubic feet this year. A lack of export infrastructure—plus a focus on oil—has limited gas production in Kazakhstan; previously, gas had been flared or re-injected into oil wells to maintain production pressure. The Government of Kazakhstan is now studying options for increasing gas production and distributing it to global markets. As Kazakhstan aims to expand oil and gas production, it will require additional investment. We will encourage Kazakhstan to be transparent and give all capable companies fair access in any new tender process, whether for new acreage or for subcontracts on existing projects.

Recognizing strong demand for crude in the east, Kazakhstan and China have begun constructing a three-part pipeline to China. Scheduled for completion in 2011, it will extend from Atyrau in the north Caspian region to western China and will ultimately have the capacity to carry 400,000 b/d. The section between Atasu and Alashankou was completed in December and is already transporting oil. Kazakhstan and China are also carrying out a feasibility study for a gas pipeline to China. The sale of PetroKazakhstan, a Canadian venture, to the China National Petroleum Corporation is indicative of China's focus on new sources of energy. Clearly, demand for oil in East Asia, as well as in South Asia, is expanding rapidly. Kazakhstan, given its location, is well suited to meet a portion of those demands. At the same time, we expect Kazakhstan to continue exporting to the West, particularly from the Tengiz, Karachaganak, and Kashagan fields.

We need to continue our work with Kazakhstan to promote transparency and private investment, and to encourage leaders to expand cooperation with U.S. energy companies. Moreover, we must work with Kazakhstan and other countries of Central Asia and the Caucasus to encourage them to expand infrastructure, and, in particular, to increase options for the delivery of oil and gas to market. Continued improvement of the investment regime and stable tax rates are essential in ensuring continued U.S. investment on a commercial basis.

The United States has urged the prudent use of energy resources in Central Asia through transparency. The Extractive Industries Transparency Initiative (EITI), in which Kazakhstan participates, is a step forward in ensuring increased transparency and appropriate oversight over revenues from hydrocarbon extraction. The International Monetary Fund has also praised Kazakhstan's management of its National Fund, in which oil and gas revenues are placed.

*Kazakhstan—the Broader Relationship*

The United States has long-term interests in Central Asia. Our strategic goal for the countries of Central Asia, including Kazakhstan, is to support their development as fully sovereign, democratic, stable and prosperous nations, contributing to regional stability and the global war on terrorism and potentially serving as models of ethnic and religious tolerance. Our relations with the five countries of Central Asia rest on three pillars: security; economic reform and development, including the oil and gas sector; and democratic reform.

Kazakhstan is one of the premier performers in the former Soviet Union on the first two pillars, but needs to move forward on its democratic reform plans. The best guarantor of Kazakhstan's future is a prosperous, stable, and democratic society where all have a stake in the political system.

The United States and Kazakhstan enjoy a vigorous strategic partnership with a constant stream of high-level visitors. Energy Secretary Bodman met with President Nazarbayev and Energy Minister Izmukhambetov in March, Vice President Cheney met with President Nazarbayev in May, Secretary Rice saw Foreign Minister Tokayev on July 6, and Agriculture Secretary Johanns is in Kazakhstan now on an agricultural trade mission. We expect this trend to continue.

The United States is assisting Kazakhstan to combat threats arising from narco-trafficking, terrorism, and all smuggling of contraband, including weapons of mass destruction, by building up Kazakhstan's rapid reaction capabilities. The U.S.-funded border security training program recently donated three 42-foot patrol boats to the Maritime Border Guards. Our security assistance programs are enabling the refurbishment of facilities at the Maritime Academy in Aktau, and we maintain a robust program of engagement to ensure that Kazakhstan has the capability to monitor and manage its land and sea borders. Kazakhstan is also acquiring with U.S. assistance refurbished Huey helicopters for use as part of its rapid reaction forces.

Kazakhstan was the first Central Asian state to develop and secure NATO approval for a Individual Partnership Action Plan, which has helped Kazakhstan gain a better understanding of NATO's role and purpose. Its participation in ordnance disposal efforts in Iraq has improved the Kazakhstani military's interoperability with U.S. forces. Kazakhstan has shown the greatest commitment to military modernization, both of equipment and doctrine, in Central Asia.

*Shanghai Cooperation Organization*

It is logical that the countries of Eurasia would want to work together in a regional organization such as the Shanghai Cooperation Organization (SCO) to address economic concerns and trans-national threats. It is important for all members to have an equal voice in the organization's agenda and outcomes. We regret when it is used by some to pursue an unhelpful agenda such as the 2005 summit statement on coalition basing. We note however that the 2006 summit took a more constructive approach, despite the efforts of President Ahmadinejad. We believe that the SCO can play a useful role in coordinating regional anti-terrorism efforts and supporting economic development. However, it should not become an engine of exclusion or domination by its larger members. We continue to share our views regarding the Shanghai Cooperation Organization in our bilateral discussions with member countries.

*Regional Integration Initiative*

The United States firmly supports maintaining and expanding Central Asia's ties to the Euro-Atlantic community, while also looking for new opportunities to the south. The creation of the State Department's Bureau of South and Central Asian Affairs reflects this expanded view. Institutions such as NATO and the Organization for Security and Cooperation in Europe (OSCE) will continue to draw the nations of Central Asia closer to Europe and the United States, as we seek new ties and synergies with nations to the south.

As Secretary Rice noted in her speech at Eurasian University in Astana last October, Kazakhstan has the potential to become the locomotive of growth for Central Asia and to give impetus to a "corridor of reform" extending southward to Afghanistan and the India Ocean. Kazakhstan's expanding economy and mounting funds for investment will ensure it a growing regional role. In addition to our encouragement of continued economic and commercial reforms, we look to Kazakhstan to make con-

comitant political reforms that will establish the democratic institutions fundamental to stability and the orderly transfer of power when President Nazarbayev completes his current term in 2012.

The United States and the countries of the broader region share an interest in the free movement of energy, people, goods, and information from the Kazakh steppes to the Indian Ocean. We want not only to support economic development along a north-south axis, but also afford Afghanistan access to a wider world, thus becoming a bridge, not a barrier. In this vision, the United States wants to be the convener, facilitator, and engine for change by prying open physical and diplomatic bottlenecks. We look forward to undertaking a strategic dialogue on regional integration with the countries of the region later this year. We will also work with multilateral institutions, such as the Asian Development Bank, the EBRD, the World Bank, governments, and the private sector.

We are making progress in the areas of transportation, energy, telecommunications, and trade. The U.S.-funded \$36 million Afghan-Tajik Bridge is scheduled to open next year. We are assisting with construction of customs and border crossing facilities throughout the region. We have almost finished the Afghan ring road, cutting travel time between Kabul and Mazar-e Sharif in half. We are making progress on rehabilitation of the Afghan energy grid, and hope to lay the foundations for export of electricity from Tajikistan to Afghanistan. The U.S. Trade and Development Agency-sponsored *Central Asian Power Sector Forum* in June brought together all the governments in the region and the private sector to explore specific projects for Central and South Asian energy trading. We are seeking to reduce trade and investment barriers through a U.S.-Central Asia Trade and Investment Framework Agreement and through technical assistance.

#### *Conclusion*

We have made progress on enabling countries in Central Asia to bring their energy resources to world markets. Much remains to be done, however, and continued robust U.S. engagement is required to push forward the next phase of energy development and provide the political space for the countries of the region to pursue their national self-interests. Security will continue to be a challenge. And continued progress in Afghanistan and a lessening of narco-trafficking will contribute materially to the stability and security of governments in the region and will help to erode the foundations of fundamentalism and terrorism.

Thank you for allowing me this opportunity to appear before the Subcommittee on this important subject. I will be happy to take your questions.

Ms. ROS-LEHTINEN. Ms. Ekimoff.

#### **STATEMENT OF MS. LANA EKIMOFF, DIRECTOR, OFFICE OF RUSSIAN AND EURASIAN AFFAIRS, U.S. DEPARTMENT OF ENERGY**

Ms. EKIMOFF. Thank you, Madam Chairwoman and distinguished Members. I am pleased to appear before you to discuss United States energy interests in Central Asia and the Caspian and the Department of Energy's and the Administration's efforts to enhance our energy cooperation in this region.

There is a great deal of progress to report on our cooperation, but there are still challenges to face. I will focus on the opportunity that Central Asia presents for enhancing energy security by adding supply and diversity to world markets and by also supporting economic growth and political stability in the region.

The countries in this region run the gamut on energy wealth. Azerbaijan, Kyrgyzstan, Turkmenistan and Uzbekistan are endowed with oil and gas resources. Tajikistan and Kyrgyzstan are resource-poor except for hydropower. These countries provide 2 million barrels of oil per day to the global market and are expected to add 4 million barrels by 2010. Their gas production is expected to increase by 60 percent in 2010.

However, the full resource potential of this region is still unknown, and reserve figures vary widely. Better data will become available as more exploration takes place.

United States engagement with Central Asia and Caspian oil and gas producers has public and private components. Western and U.S. companies have been active in this area, and there have been substantial investment successes.

As Ambassador Mann noted, U.S. companies are involved in some of the largest projects in this area, as well as in developing new pipeline projects. In addition to adding to global energy supplies, development of these projects has created thousands of jobs, resulted in training the domestic labor force, provided access to technology, increased commitment to environmental protection and led to the establishment of small- and medium-sized businesses. Countries in this region are now empowered with opportunities and moneys to develop their economies and become more self-reliant.

Developing resources in this region is not without obstacles. There is a lack of export outlets, and we have supported the development of new transit projects, as the Ambassador indicated.

Our goal is to promote regional partnerships among producing and transit countries. It is important that the countries take responsibility for encouraging the development of new, commercially viable export routes and find ways together, and with commercial entities, to create a win-win situation. We also consistently support the creation of sound legal, fiscal and regulatory policies that will encourage investment in the energy sector as well as support economic growth.

The Department of Energy maintains ongoing dialogues with officials from Kazakhstan and Azerbaijan. Energy Secretary Bodman recently visited Kazakhstan, where he met with President Nazerbayev and the energy minister. He and Deputy Secretary Sell recently met separately with Azerbaijani President Aliyev in Washington and Istanbul. Their discussions focus on advancing our energy cooperation and recognizing the important role it plays in the global energy market.

The Department has formal dialogues with both countries. As these bilateral dialogues have matured, we have changed the focus from oil and gas issues and expanded our cooperation to a broad range of technologies—energy efficiency, renewable power, nuclear power and environmental concerns. It is important that these countries understand that we are not just interested in their oil and gas contribution to global markets, but also share a common goal of building an energy sector in these countries that is diversified, cost-effective and secure to support their growing economies.

What are our next steps? We will continue to work with countries in the region to facilitate the development of commercially viable oil and gas export infrastructure. We will encourage more surveys to better understand the resource potential in the region, which will help attract investment. We support the full involvement of Kazakhstan and the BTC pipeline, now that Azerbaijan and Kazakhstan have completed an intergovernmental agreement and they begin negotiations on host government agreements with the companies.

We also support the development of hydropower resources in the area, for domestic use as well as for markets in South Asia, including Pakistan and Afghanistan, enhancing the North-South energy export corridor. We also plan to hold formal energy dialogues this fall in Kazakhstan and Azerbaijan to broaden and deepen our energy cooperation.

Finally, we remain committed to these countries to build a long-term, strong partnership that will strengthen the countries and the regions economically and politically.

Thank you for your attention. I will be pleased to answer any questions.

Ms. ROS-LEHTINEN. Thank you so much.

[The prepared statement of Ms. Ekimoff follows:]



**Statement of Lana Ekimoff**  
**Director, Russian and Eurasian Affairs**  
**Office of Policy and International Affairs**  
**Department of Energy**  
**Before the**  
**Subcommittee on Middle East and Central Asia**  
**House International Relations Committee**  
  
**Assessing Energy and Security Issues in Central Asia**  
**July 25, 2006**

Thank you, Mr. Chairman. I am pleased to appear before you today to discuss U.S. energy interests in Central Asia and the Administration's efforts to enhance our cooperation with these countries and develop mutually beneficial relationships in this region.

**Introduction**

The Administration has been extremely proactive in its relations with this region. There is a great deal of progress to report in our efforts to enhance energy cooperation, but there are still challenges facing the countries in this region.

Today I will focus my remarks on the opportunity that Central Asia presents for enhancing energy security by increasing the supply of energy to world markets, adding diversity to supply options and supporting economic growth, and thus, establishing

political stability in these countries and in adjacent areas that do not have significant energy resources. I also will briefly review the energy posture of the individual countries and highlight the role of U.S. investment in the region. Then, I will focus on the Department of Energy's and the Administration's energy cooperation with the independent republics of Central Asia and the Caspian. For purposes of this testimony I am defining this region as the Caspian littoral states (minus Russia and Iran), Uzbekistan, Tajikistan, and Kyrgyzstan.

### **Energy Scenario**

The countries in Central Asia run the gamut on energy wealth. Azerbaijan, Kazakhstan, Turkmenistan, and Uzbekistan are endowed with oil and gas resources. Tajikistan and Kyrgyzstan are faced with being resource poor except for hydropower. Oil production has increased substantially over the last decade, due to the influx of foreign investment in Azerbaijan and Kazakhstan. These countries are now providing about 2 million barrels of oil per day to the global market, and will be contributing up to 4 million barrels per day of oil in 2010. Central Asian-Caspian gas production is expected to almost double from 14 billion cubic feet per day in 2005 to 24 billion cubic feet per day in 2010.

Data on oil and gas reserves for the Central Asia-Caspian region vary widely depending on the source and are difficult to pin down. The Energy Information Administration (EIA) indicates that proven oil reserves are somewhere between 17 and 50 billion barrels.<sup>1</sup> There have been estimates of resources (not proven reserves) in excess of 100 billion barrels. As more exploration is done in the region and more delineation of

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1) EIA cites the reserve estimates from [The Oil and Gas Journal](#) and BP's [Statistical Review of World Energy](#)

deposits is undertaken, better reserve figures will be forthcoming. Reserve numbers for gas are equally questionable. Very little exploration has been done to identify offshore reserves.

### **U.S. Engagement**

U.S. engagement with Caspian oil and gas producers has both public and private components. Most importantly, there have been substantial investment successes by western and U.S. companies in the region. Following the breakup of the Soviet Union in 1991, this region attracted the interest of the international energy community because of the substantial oil and natural gas reserves believed to lie onshore, but especially offshore beneath the Caspian Sea. The Sea is 700 miles long and contains six separate identified hydrocarbon basins, most of which have not been developed.

With independence, both Azerbaijan and Kazakhstan welcomed international investors. In 1994 Azerbaijan signed the "Contract of the Century." This contract is in the form of a Production Sharing Agreement with a consortium of 11 foreign companies, including three American companies--Chevron, ConocoPhillips, and Amerada Hess-- for the development of three major oil fields in the Azerbaijan sector of the Caspian Sea --the Azeri, Chirag and Gunashli (ACG) fields. Western companies anticipate investing \$12 billion dollars in this project with projected peak production of 1.1 million barrels of oil per day.

In 1993, the Chevron-led Tengizchevroil consortium was formed in Kazakhstan to develop the Tengiz oil field. The consortium (with Chevron and ExxonMobil owning the majority shares) is expected to invest more than \$20 billion in the project. In just the last three years, the consortium has purchased more than \$2 billion in goods and services from Kazakhstan companies. Oil production from Tengiz is expected to reach about 500,000 barrels per day in 2007. U.S. companies (ExxonMobil and ConocoPhillips) are also involved in the large oil deposit being developed in the offshore Kashagan block that will have peak production of 1.2 million barrels per day after 2015 and in the Karachaganak field (Chevron) where about \$4 billion has been invested to date.

In addition to oil and gas investment, AES, an independent U.S. power producer, has been involved in Kazakhstan's electric power sector. The company plans to invest about \$350 million over the next 5 years to refurbish coal and hydropower plants as well as the electricity distribution system.

These projects developed by western investors, including companies from the United States, are enhancing global competition by bringing diverse energy supplies to world markets as well as to the regional market. More importantly they have created thousands of jobs, provided access to improved technology, trained the domestic labor force, invested in social infrastructure, increased commitment to environmental protection, and encouraged the establishment of many small- and medium-sized enterprises in these countries. Thus, some of the countries in this region are now empowered with opportunities and monies to develop their economies and become more self reliant.

However, developing resources in this region is not without obstacles. Our goal is to promote regional partnerships among the producing and transit countries. It is important that the countries take responsibility for encouraging the development of new commercially viable export routes and find ways they can work together and with commercial entities in order to create a win-win situation for all involved. The U.S. government is steadfast in working with these countries to help solve their challenges.

One of the major difficulties faced by Caspian states as they attempt to develop and export their energy resources has been the lack of export outlets. During the Soviet era, all of the oil and natural gas pipelines in the Central Asian- Caspian Sea region (aside from limited capacity in northern Iran) were routed through Russia. Prior to 1997, exporters of Caspian region oil had only one major pipeline option available to them, a 240,000 barrel per day pipeline from Kazakhstan to Russia. Since independence, several new oil export pipelines have been built, including the Caspian Pipeline Consortium (CPC) pipeline that transits Russia to the Black Sea. On July 13 of this year, a ceremony was held in Ceyhan, Turkey to celebrate the lifting of first oil from the Baku-Tbilisi-Ceyhan (BTC) oil pipeline that runs from Baku, Azerbaijan through Tbilisi, Georgia to the Mediterranean Sea at Ceyhan. Negotiations were just completed to include Kazakhstan in this pipeline project. An oil pipeline from Kazakhstan to China has also been completed. The South Caucasus gas pipeline from Baku to Erzurum, Turkey will be operational later this year or in early 2007. However, the relative lack of export options continues to limit exports to markets outside the former Soviet Union. The

Administration has consistently supported the development of new pipeline projects, especially an East-West transport corridor that would stretch from Kazakhstan through Azerbaijan, Georgia, and Turkey to the Mediterranean, Europe, and other markets. In support of the Administration's commitment to multiple pipelines, the U.S. Trade and Development Agency has funded feasibility studies of several Bosphorus Bypass pipeline projects that would carry Russian and Central Asian oil from Black Sea ports to Western Europe and other markets while alleviating the congestion in the Bosphorus.

A second issue facing oil and gas development in the Caspian Sea is the unresolved legal status of the Sea. Prior to 1991, only two countries – the Soviet Union and Iran – bordered the Caspian Sea, and the legal status of the Sea was governed by bilateral treaties signed in 1921 and 1940. With independence these treaties became invalid and the ownership and development rights in the Sea have not been resolved. While only the Caspian littoral states can negotiate an agreement, the United States has provided technical legal expertise.

The United States Government also continually encourages the development by Central Asian countries of sound legal, fiscal and regulatory policies to support economic growth, including energy development. The Department of Energy has maintained on-going dialogues with energy officials from Kazakhstan on market reform in the energy area. In March, Energy Secretary Bodman visited Kazakhstan where he met with President Nazerbayev and the Energy Minister to advance our energy cooperation under the U.S.-Kazakhstan Energy Partnership. This Partnership has met five times since it was

established in 2001. In September 2005, Energy Deputy Secretary Sell and Kazakhstan's Minister of Energy and Mineral Resources signed a Work Program that commits us to cooperation in the following areas:

- Oil and gas project development;
- Realization of multiple pipeline options for export of both oil and gas;
- Improving the investment climate;
- Market reform and increased investment (including energy efficiency and renewable technologies) in the electric power sector;
- Energy-related environmental protection and regulation;
- Energy facility security; and
- Commercial nuclear technologies.

We also have conducted workshops on oil spill response policy planning, cooperation in environmentally-related marine science, and facilities security in Kazakhstan. A dialogue is under way in all of these areas.

The Department of Energy also has a bilateral forum with Azerbaijan, the U.S.-Azerbaijan Energy Dialogue. In May 2005, Energy Secretary Bodman participated in the celebration of the first fill of the BTC pipeline in Baku, Azerbaijan. He delivered a strong statement of Administration support for the efforts of the Azerbaijan government and the ACG consortium to develop additional and alternative pipeline routes for Caspian oil and gas. Departmental officials, including the Secretary, meet on a regular basis with representatives of the Azerbaijan government and, under the umbrella of the Energy Dialogue, have recently begun an initiative to expand our cooperation beyond oil and gas

to energy efficiency and renewable technologies. Use of these technologies could provide significant long-term energy savings for the Azerbaijan government as it invests in new housing for its large population of internally displaced persons as a result of the Nagorno-Karabakh conflict.

As these bilateral dialogues have matured, the primary change has been to expand the focus from primarily oil and gas issues to include a broad range of technologies, including energy efficiency, renewables and nuclear power, and an exchange of information on lessons learned, an example of which is the training we have conducted with Kazakhstan on how to assess risk to energy facilities and protect them from sabotage and terrorist attacks. We want our partners in these countries to understand that we are not just interested in the contribution they can make to world oil and gas supplies, although that is important. We want them to understand that in the long term, we share a common goal of building an energy sector in these countries that is balanced, cost effective, and secure to support vibrant, growing economies and rising standards of living.

Speaking of the long term, we encourage development of joint research projects between scientists in Central Asia and scientists at the Department's National Laboratories. We have sponsored a virtual meeting that brought together representatives of U.S. Government funding programs and scientists in the region to explain the grant application process and to continue to support collaboration. We have supported solar scientists to work at the National Renewable Energy Laboratory to learn more about renewable



energy. We maintain a website in cooperation with the Department of Defense that encourages this cooperation and offers a tool for research facilities in these countries to allow them to demonstrate their capabilities.

As in all bilateral relationships, there are challenges. With economic growth, the Government of Kazakhstan has developed ambiguous feelings about foreign investment, as has happened in Russia. The investment climate has been affected by such things as changes in laws relating to domestic content and government policy on visas for expatriate workers. A dispute over provisions of the current Production Sharing Agreements, while resolved, led to a government statement that future Production Sharing Agreements would have less favorable provisions for foreign investors. The Kazakhstan government now concedes that the original investors assumed a higher level of risk when they entered the Kazakhstan market and are willing to grandfather agreements that had been previously negotiated. However, U.S. oil and gas companies maintain interest in investment in Kazakhstan, and we actively advocate on their behalf.

**Future Plans**

The United States Government, under the leadership of Secretary of State Rice, has developed a vision for this region characterized by democracy, prosperity and reform. A major tactic of this strategy is to strengthen regional trade and investment links. Whether the issue is deepening and broadening regional economic ties or supporting an individual country's economic development goals, energy is a key factor. Without strong, stable, and growing energy supplies, neither of these goals can be realized. This is why the

Department has taken an active role in engaging the countries of the region and supports interagency activities, such as the recent meeting of the U.S.-Central Asia Trade and Investment Framework Agreement.

The United States Government supports continued development of a commercially viable Central Asian oil and gas export infrastructure. We are encouraging the countries of the region and the European Union to work as rapidly as possible to develop a gas pipeline network to move Caspian gas to the European Union through Turkey. This project will promote the economic goals of the region and introduce more competition into the European gas market, benefiting both suppliers and consumers. An important step in this process is to encourage more surveys of gas reserves in the offshore regions of the Caspian in Azerbaijan to reassure potential investors and consumers that there are sufficient gas reserves to justify investment in pipeline infrastructure.

Completion of the BTC oil pipeline was a major accomplishment for the countries of the region. The next step is to bring Kazakhstan into this project. Kazakhstan and Azerbaijan recently signed the InterGovernmental Agreement that defined the terms under which Kazakhstan oil could enter BTC. The final step is completion of a Host Government Agreement with the private sector oil exporters to define the terms of their participation. We encourage all sides to complete these negotiations as quickly as possible.

While not known to possess any significant oil and gas reserves, Kyrgyzstan and Tajikistan possess enormous hydropower potential. The U.S. Government has begun working with these countries to explore the potential for exporting hydropower to the energy-poor countries of South Asia, including Afghanistan and Pakistan. The U.S Trade and Development Agency, with FREEDOM Support Act funds from the Department of State, is providing seed funding for this project. The Department of Energy, along with other government agencies, is supporting this initiative.

The Department of Energy has an active program underway to broaden and deepen cooperation with the countries of the region in the energy sector. The sixth meeting of the Energy Partnership with Kazakhstan will take place this fall in Kazakhstan. Under the Partnership, the Department is planning study tours in the United States for key Kazakhstan officials to address two major energy technologies: clean coal technologies (80 percent of Kazakhstan's electric power is fueled by coal); and nuclear power (Kazakhstan has plans to establish a nuclear power industry in the southern part of the country, which does not have oil and gas resources). Under the Energy Dialogue with Azerbaijan, we are planning a major conference to encourage the use of low-cost, energy efficient, earthquake resistant building materials. It is a major goal of Azerbaijan's government to increase living standards. Achieving this goal will require significant investment in new housing, including housing for the estimated 700,000 refugees from Nagorno Karabakh. This building technology, with its very low heat and power requirements, may eliminate the need for price subsidies over the long-run, thereby

achieving macroeconomic goals as well as raising standards of living. DOE experts have also been working with the Azerbaijanis to develop a wind power project in Nakhchivan.

I would also like to say a few words about Georgia. While not a Caspian country, it is a key link in the East-West transport corridor for Caspian oil and gas. Georgia has no significant energy resources and is almost totally dependent on Russia for gas and electricity in the winter. The political situation between Russia and Georgia does not allow for a reliable supply of gas and electricity and for more than a decade Georgians have not been able to supply heat and power to its citizens during the coldest parts of the winter. It should be noted, however, that for the first time in eight years the Georgian government headed this crisis without U.S. assistance. Under the Freedom Support Act, U.S. Government advisors have helped strategically plan Georgia's energy sector budget as well as the privatization of UEDC, Georgia's national electricity company. These measures in addition to further reforms were critical in alleviating the impact of the January crisis by facilitating the integration of emergency Azerbaijani gas and increasing the output of Georgian hydropower.

Georgia still critically needs investment in energy infrastructure and the Department has worked with the Howard H. Baker, Jr. Center for Public Policy on a proposal for a private/public initiative to work with the Georgians and the U.S. business community to discuss policy alternatives and define and eliminate barriers to investment in Georgia's energy sector. Secretary Bodman discussed this with Georgian President Saakashvili during his recent visit to Washington, D.C. The Baker Center will take the lead on this

project with support from the Department. We expect this initiative to assist Georgia in designing a long-term energy sector development strategy that will enable them to achieve an acceptable level of energy security.

**Conclusion**

This Administration has had a very proactive approach to developing positive and mutually beneficial relationships with the countries of Central Asia and the Caucasus. The past year has seen multiple visits to the region of high-level officials, including Vice President Cheney, Secretary Rice, and Secretary Bodman. Our energy dialogues with these countries are focused on broadening and deepening cooperation in the energy sector. The U.S. private sector also has been actively engaged in working with regional officials to achieve their national economic development goals. We have made a commitment to these countries to build a long-term partnership, including an energy partnership. As the energy sectors and needs of these countries develop and change, our relationship will also change, but the basic commitment to cooperation will continue.

Mr. Chairman, I would like to thank you for the opportunity to testify before you today, and I welcome any questions you and the Subcommittee might have.

Ms. ROS-LEHTINEN. Thank you to both of our panelists for being here today. We will begin a round of questions with Congressman Ackerman.

Mr. ACKERMAN. Thank you very much, Madam Chair.

Secretary Mann, your statement notes that we must now press on with the second phase of supporting new energy routes out of Central Asia. Could you outline for us what those routes might be and what the various implications would be of the proposed routes?

Ambassador MANN. Yes, sir, I am happy to do that.

If I can just take you back a short bit, the fundamental problem that faced the new states at the time of independence was that they had enormous oil and gas reserves and that, as they developed the reserves with the help of Western companies, they needed a way to export it. That is what CPC, BTC and some other smaller pipelines have done.

Now, as they look toward the development of new reserves, especially Kashagan in Kazakhstan, there is need for additional capacity. So one thing—in oil terms, one thing that the companies and countries are looking at is expanding the flow of Kazakhstan oil across the Caspian and into the BTC system and perhaps by other export routes to the Black Sea and the Mediterranean.

As Ms. Ekimoff mentioned, the agreement that Kazakhstan and Azerbaijan have just signed is an important step toward making that oil transit much more efficient and, I think, competitive.

In terms of gas, the United States has long supported new gas export routes out of Central Asia, including a trans-Caspian pipeline. Now, regrettably, in 2000–2001, the Government of Turkmenistan did not move ahead with a very attractive, feasible proposal to build such a pipeline. But it is our belief that a trans-Caspian gas pipeline would be an attractive, commercial option for the Central Asian producers.

The United States also has long supported new pipeline routes from South Central Asia to South Asia. A number of those are under study, and as with all of the pipelines a key point of the United States policy is that they must be commercially feasible, so that is an important consideration in all of this.

Finally, if I may say, as well, just to remind you that as a matter of law and policy, we remain firmly opposed to any pipelines involving Iran, and we continue to make this strong opposition known to these Central Asian states.

Mr. ACKERMAN. If I could follow up, also in your statement, you discussed the lack of limitation agreements in the Caspian Sea, chiefly because of the delay on the part of Afghanistan and Turkmenistan. Why have both of these nations been dragging their feet on this question? And wouldn't it be in both nations interest to reach an agreement so that hydrocarbon resources could be exploited for future profits?

Ambassador MANN. Yes, I think you are absolutely right on that. Kazakhstan, Azerbaijan and Russia have reached agreements, I think in a very professional fashion, that deserve our admiration.

Now, with Iran, Iran has a methodology that no other nation in the Caspian supports. Iran says, There are five of us; let us divide it five ways, and we get 20 percent. That is not accepted by any of the others.

Turkmenistan also uses a methodology that the other four do not accept, and it is a methodology that, if followed, moves the Turkmen border very far to the west into areas that Azerbaijan is already exploiting.

Now, the United States' position on this has been to say, we support any methodology that the five come up with that is done peacefully, that is done by mutual agreement. We have offered on a number of occasions our technical assistance and our legal experts to the Azerbaijani and Turkmen Governments to help those two countries, in particular, reach an agreement and it is an offer that still stands. But so far, regrettably, in the north part of the Caspian there has been a delimitation agreement, but we are not seeing that with Iran and Turkmenistan.

Mr. ACKERMAN. Ms. Ekimoff, you state that Central Asian-Caspian production of oil will reach 4 million barrels a day by the year 2010, and that gas production will likely double to 24 billion cubic feet per day in that same year.

How do these increases compare with expected increases and demand for oil over the next 4 years? And does increased demand equal increased production, or is one greater than the other?

Ms. EKIMOFF. I have to say that I don't have the specific data on what the trends are for increased demand, but certainly, for example, in the world, about 80 million barrels of oil per day is produced; and this, while a small amount, does contribute to the diversity of supplies, and it does enhance the production in that area and make these countries important to world—to the global oil market.

But I can provide you with some more details on that.

Mr. ACKERMAN. Your statement also discusses at some length the Baku-Tbilisi-Ceyhan pipeline, and while we are all pleased about the prospect of Central Asian oil and gas getting out of the region without involving either Russia or Iran, I wonder if you would discuss how Armenia fits into any future definitions of the pipelines to the West.

Ms. EKIMOFF. There have been some efforts to work with Armenia. However, it still is a political issue, which I would hope Ambassador Mann can shed some light on, where these pipelines are much more efficient and effective going through Georgia and Turkey.

Ambassador MANN. I would just be happy to add a word on that, since I was involved in the Karabakh negotiations for these past few years.

In looking at the pipeline bending around Armenia, I think it comes back to a point I made in my previous answer, which is that the United States Government supports the private sector in building these lines, and as such, we don't tell the countries where to put their investment.

In the BTC case, the companies reached the judgment that they did not want to put \$14 billion in investment at risk and bet on a piece between Armenia and Azerbaijan. As a result, being risk-averse in that sense, they thought the safer course was to take a more expensive construction route, but nevertheless, bend around Armenia, as long as the two nations are at war.

So, it was a commercial decision that gave the BTC pipeline that shape, and it was the investment calculation of the consortium.

Ms. ROS-LEHTINEN. Thank you.

Mr. Carnahan.

Ms. Berkley.

Ms. BERKLEY. First of all, I want to thank you very much for being here. This is a part of the world that, until recently, I knew so little about and now realize how strategically important it is to our country and, I believe, security in many very sensitive parts of the world. I have also come recently to appreciate how vast their oil and gas reserves are, and how extraordinarily important that is to our economic well-being and security needs.

Let me ask you, if I could, and I guess this is Central Asia Primer 101, but can you give me some idea of perhaps collectively, although I am sure each nation is different and unique in its relationship with the Russians, the Iranians, the Chinese—where we fit into this?

What would their natural inclination be as a region? Would they gravitate toward Muslim countries? Would they be more interested in coming into the American orb and being stronger allies of ours? Are these issues being determined by their governments on pure economic basis? Are they factoring in other security needs, religious needs?

Give me some idea of what is happening there and what is the best-case scenario for the United States and how we can go about achieving that scenario. Because, lately, we are not doing well achieving any best-case scenario anywhere in the world.

So, if you can share some of your knowledge with me, I would be very grateful.

Ambassador MANN. Thank you, Madam Congresswoman. As a first point, I strongly encourage you to travel to the region.

Ms. BERKLEY. Well, the Ambassador from Kazakhstan was recently in Las Vegas, and I hosted him there.

Ambassador MANN. How did that work out there?

Ms. BERKLEY. Let us say it was an eye-opening experience for us both.

Actually, we had a lot in common, because of the nuclear non-proliferation issues and gaming issues, interestingly enough. I am very anxious to go to Kazakhstan.

But I am planning to go, I can't go this year, but I am hoping to go next year when it is warm in Kazakhstan. Frozen tundra and Vegas don't work too well for me.

Ambassador MANN. Kazakhstan is a good friend of the United States, so I am glad you had that conversation with the Ambassador.

Overall, there is a powerful Soviet imprint. The countries were Soviet republics for 70 years. Russian, in those years, was the language of the educated, the language of the elites. There is a powerful Soviet legacy, also an infrastructure, not just in oil and gas pipelines, but the rail routes, the air routes, telecommunications, so much of it still links through Moscow and the Russian heartland. That is a fact that just exists in Central Asia.

Now, what the countries have said to us in so many ways is, well, we have greater opportunities now. We want not merely to be



a part of the USSR as we were, we want to link to the global economy.

The United States, in so many ways, has done this; not to create a sphere of our own, we reject that approach. But what we believe very strongly in is working with the governments and the people to strengthen their independence, strengthen their decision-making autonomy, strengthening their sovereignty and assisting in a process of stable development.

One of the other aspects of this Soviet legacy was a forced atheism on the countries that had been Muslim for so many centuries. What we have now in Central Asia, fundamentally, are secular governments. So I think that is what they are left with after those Soviet years.

There are, in positive terms, in these countries, a powerful pool of extraordinarily talented young people who, given the chance, can do a great deal to reshape and develop these societies.

Let me make one plug here for the American exchange programs for high school and university students, that the Congress has supported for many years, and I think they give an extraordinary payoff in what they are trying to do in terms of development.

So, yes, there is a powerful Soviet legacy but the United States is working with the countries to try to develop new options, and also—and Secretary Rice is particularly interested in this—seeing what possibilities there are to support links between Central Asia and South Asia. She has reorganized the State Department bureaucratically to make us more effective in our efforts; and generating or supporting these new infrastructure links is something that is a special concern in the Department of State right now as well.

Ms. EKIMOFF. I just wanted to add, as I mentioned, I think, part of our dialogues have been to broaden the energy discussion, including to talk about areas like energy efficiency, where these countries have a lot to gain, as well as to look to other kinds of resources like renewable energy.

I know Kazakhstan is considering developing a nuclear industry, so that we can share our experiences, both good and bad, and help them become more independent, and also to use their resources, as they see as maybe more of an export commodity, and to become more efficient in their own use of energy.

Ms. BERKLEY. What can the United States Congress do to further the efforts and help strengthen the links between the United States and Central Asia?

We are holding a hearing, listening to what you have to say. After we leave here and I go to my next meeting, is there anything we should be doing?

Ms. EKIMOFF. One of the things I would like to mention, as I think Ambassador Mann has mentioned, I think it is important for the countries to understand our system and, for example, what the legislative process is. Certainly sharing your experiences and how to develop rules and regulations is very important to them. They just don't understand.

It would be interesting to hear the challenges that you face as legislators, as well as some of the good opportunities that you have

and certainly any support that we can give in developing programs in these countries for energy efficiency.

And exchange programs, too, are critical here, so that they can come and visit our labs and understand about how our technology works. It all adds to their understanding and ability to take on new projects.

Ambassador MANN. What I would say is that just looking at the map, Russia, China, Iran are very close to Central Asia. It is very easy for their officials to travel.

We are far away, so to the degree that you and other Members can make an effort to go out there to engage with the officials, I think that is a highly desirable thing.

The other thing that I would note is that everything that we as a Government achieve, we achieve through a handful of Embassies and personnel in very difficult and remote locations. So the support that the Congress gives in every way for our operations out there really has an enormous payoff in every issue that we handle.

Ms. BERKLEY. Thank you.

Ms. ROS-LEHTINEN. Payoff, you are speaking her kind of language here.

Ms. BERKLEY. I am seeing big casinos in Kazakhstan.

Ms. ROS-LEHTINEN. What goes on in Kazakhstan stays.

Let me ask you about your thoughts on continued military assistance in Kazakhstan and Azerbaijan. Do you believe that it is a priority to help these two countries strengthen their capabilities so that they can independently defend the Caspian Sea energy platforms and interest?

In my last question, I wanted to ask you about Iranian influence. You had talked about how close geographically these countries are.

To what extent do you believe that the embrace of the Iranian regime in Shanghai implies a degree of legitimacy for and a Russian and Chinese acceptance of Tehran's current policy? So, Iranian influence and also the United States military assistance to Kazakhstan and Azerbaijan.

Ambassador MANN. Madam Chairwoman, in each of those two countries, I think we have a good program of military cooperation and training; and a good part of that is strengthened at precisely that issue you have identified, Caspian security. It is not Central Asia per se, but I will say that I know it is a concern for Azerbaijan, which, in the summer of 2001, had oil field workers chased off of the Alov deposit by an Iranian gunboat. So it is a lively concern for the Azerbaijanis.

So we are in there. I know our command and European Command really has been devoting attention to this. We have programs of IMET with each country. So I do think, yes, it is very important.

On the Iranian question, again, I am not an Iranian specialist myself. But from spending much time in Central Asia, I think the model of Iranian theocracy holds no appeal for the Central Asians, and I will just keep it simple and leave it at that. It is something that we watch; it is something that we are aware of, something we engage in dialogue with.

Also, we realize that certainly for a country like Turkmenistan, Iran is a neighbor, that is a fact of life, and they have to find some type of workable relationship with the Iranians. That said, we are

very candid and straightforward both in our policy concerns about Iran when we talk to the Central Asians and very straightforward about the demands of United States law with regard to the Iran sanctions.

On SCO, on Shanghai Cooperation, whether observer status implies legitimacy, I think certainly to see the role that Iran would hope to play in SCO is not a helpful one; I would prefer not to reach sweeping generalizations about what it means that Iran is attending these meetings, but to focus instead on what actually comes out of the meetings themselves.

So to the degree that Shanghai Cooperation Organization focuses on the practical issues of antiterrorism, of narcotics trafficking, of development issues, things like that, then that is not a bad focus for the organization. If, as in the 2005 SCO statement, it goes beyond that, then it is less helpful.

So I think we try and look at the concrete issues and the concrete actions.

Ms. ROS-LEHTINEN. Do you have anything to add?

Ms. EKIMOFF. No. Not my area of expertise, so I will leave it up to Ambassador Mann.

Ms. ROS-LEHTINEN. That never stops us.

Thank you very much. Excellent testimony and wonderful answers to our questions. Do you have any follow-ups?

Mr. ACKERMAN. Thank you very much.

Ms. ROS-LEHTINEN. Thank you, thank you to both.

I would like to introduce our private panel now.

Zenyo Baran joined the Hudson Institute as Senior Fellow and Director of the Center for Eurasian Policy in April, 2006. From January, 2003, until joining Hudson, Ms. Baran directed the International Security and Energy program at the Nixon Center. Through writing seminars and briefings, she helped American policymakers and opinion leaders to understand the Eurasian region's political, economic and social dynamics and the United States interests served by an effective partnership with key allies.

From 1999 through December 2002, Ms. Baran worked as a Director of the Caucasus Project at the Center for Strategic Studies. She received her M.A. in international economic development and B.A. in political science from Stanford.

Steven Blank is a professor of National Security Studies at the Strategic Studies Institute of the U.S. Army War College. Dr. Blank has been a professor of national security affairs at the Strategic Studies Institute since 1989. In 1998 to 2001, he was the Douglas MacArthur Professor of Research at the War College. Prior to this appointment, Dr. Blank was associate professor for Soviet Studies at the Center for Aerospace Doctrine Research and Education at the Air University of Maxwell Air Force Base.

Dr. Blank's M.A. and Ph.D. are in Russian history from the University of Chicago. He has published over 500 articles and monographs on Soviet Russian, United States, Asian and European military and foreign policies, and his most recent book is *Russo-Chinese Energy Relations: Politics in Command*, 2006.

Then we will hear from Dr. Ariel Cohen, who began working for the Heritage Foundation in 1992, Dr. Cohen earned his Ph.D. at the Fletcher School of Law and Diplomacy at Tufts University,

served as a consultant to both the Executive Branch and the private sector on policy toward Russia, Central and Eastern Europe; and he participates in an ongoing study, "Russia, 2025," conducted by the World Economic Forum.

He is often called on to testify on Russian and former Soviet politics, economics and law, and provides commentary on Russian and Eurasian affairs. He was a weekly contributor to the Voice of America radio and TV programs for 8 years.

Then we will hear from Robert Ebel, who is currently chairing the Center for Strategic and International Studies Energy program, and provides analysis on world oil and energy issues with particular emphasis on the former Soviet Union and the Persian Gulf. He is also codirector of the Caspian Sea Oil Study Group program and the Oil Market Study Group.

In addition, he has directed studies on global nuclear material management and the geopolitics of energy.

Mr. Ebel served with the CIA for 11 years, and has spent over 7 years with the Office of Oil and Gas in the Department of Interior. He also served 14 years as Vice President at a corporation.

He has traveled widely in the former Soviet Union, led an international energy agency team, examining oil and gas sector, participated in the Sudanese peace talks in Kenya, worked with Iraqi oil officials and is a past chairman of the Washington Export Council and a past member of the board of the American Near East Refugee Aid.

He is author of many books on energy issues and is a frequent commentator on many of these issues. He has a Master's from the Maxwell School at Syracuse, a Bachelor's in Petroleum Geology from Texas Tech, and in 2002 he received the Department of State's Distinguished Public Service Award.

A very great panel. Thank you very much.

Ms. Baran, we will begin with you.

All of your statements will be made part of the permanent record. Feel free to summarize.

**STATEMENT OF MS. ZENYO BARAN, DIRECTOR, CENTER FOR EURASIAN POLICY, HUDSON INSTITUTE**

Ms. BARAN. Thank you, Madam Chairwoman, for the opportunity to appear before you today. I am glad to participate in such a timely and critically important hearing.

I will focus on three key themes: First, securing United States energy interests in Central Asia; second, the importance of forging a mutually beneficial strategic partnership with Kazakhstan; and third, countering anti-American developments within the SCO; and then end with a few recommendations.

On the United States energy interests in Central Asia, I think we see Central Asia energy infrastructure and resources once again becoming a source of competition for great powers.

In this new rush, the two most important regional players are China and Russia. Energy-hungry China is actively working to reach long-term oil and gas agreements, and has billions of dollars to spend in order to obtain them. Russia is also spending considerable sums in the region in order to ensure it can maintain its monopoly over Caspian gas transportation to Western markets.

With all respect to the previous panelists, I would like to say the U.S., however, is missing in action. In the 1990s, the United States had a very successful Caspian energy policy and identified the region as an important non-OPEC source of oil. The United States policy also correctly identified the direct transportation of Central Asian gas to new markets, rather than via the Russian monopoly Gazprom network or through a potential Iranian pipeline, as the best strategy for the region's energy transportation future.

To this end, the United States has already supported several non-Russian and non-Iranian oil and gas pipelines from the Caspian Sea, one of which, as we just heard, the Baku-Tbilisi-Ceyhan oil pipeline, was just recently inaugurated. Securing the East-West flow of Caspian gas has been much more difficult and, so far, efforts have not been successful.

Russia clearly won the first round of Central Asian gas competition. While the United States backed a trans-Caspian gas pipeline to transport Turkmen gas via an undersea pipeline to Azerbaijan and, from there, via Georgia, Turkey and onwards to European markets, Russia was able to finalize a gas pipeline agreement with Turkey to send its gas via Turkey via the Blue Stream gas pipeline underneath the Black Sea.

In part, because of the authoritarian rule of Turkmen President Niyazov until recently, the United States had abandoned its Central Asian gas strategy. The standard arguments were that the U.S. should not engage in energy dialogue with Niyazov until and unless he made improvements to the democracy of the human rights situation in the country. Given that he is not likely to do so, it was deemed best to wait him out and begin energy talks with his successor, no matter how far in the future.

This policy was clearly not working. In fact, while the United States waited, we see the Chinese and the Russians have moved in to fill the vacuum. More recently, the trans-Caspian gas pipeline idea was revived by the United States Administration, but this time starting with Kazakhstan.

According to the new strategy, Turkmen gas will be added only later if at all. The logic is that there is already plenty of flared gas in Kazakhstan that could be transported to Western markets. Given Kazakhstan's pragmatic energy development policy and demonstrated interest in the East-West corridor, this option seems to be a good way forward.

Yet, this too may not materialize unless the United States is seriously committed to changing the energy dynamics in Eurasia, which ultimately means confrontation with Russia's regional energy strategy. To come up with a coherent and pragmatic strategy, it is necessary to look at the broader Eurasian energy picture, specifically at the activities and plans of Gazprom.

While many have wanted to turn a blind eye to the possibility that United States and Russia may not have a win-win option in Central Asian energy, it is clear that Russia is playing it all. I won't go into the details of the dynamics of the Central Asian gas issues, as it is in my testimony, but I would say, following Vice President Cheney's visit to Kazakhstan in May, we have seen a renewed interest in Turkmenistan and Kazakhstan to engage and work with the United States on the trans-Caspian gas pipeline.

Without United States support, however, they are probably going to give in to Russia, and therefore, it is important to support them while they are still interested in working with U.S.

Now, my second point is the importance of forging a mutually beneficial strategic partnership with Kazakhstan. As we heard, Kazakhstan is a very significant oil and gas producer in the region. It is also a key ally of America's, and even though the U.S. has taken this alliance for granted, it has stood by United States interests, which have been aligned with Kazakh interests.

But for Nazerbayev, President of Kazakhstan, to keep his country in close alliance with the United States at a time when anti-Americanism is on the rise even in Central Asia, and when China, Russia and Iran, to differing degrees, are trying to push the United States out of the region, he must be able to demonstrate that Kazakhstan's contributions and achievements are being noted and awarded, and that a mutually beneficial strategic partnership will be reached by the time of his visit to Washington this September.

On countering anti-American developments at the SCO, I would say, despite public denials by the SCO Co-Chairs Russia and China, that the organization is not an anti-American alliance, facts on the ground indicate that it is indeed moving in that direction.

These sentiments are a by-product of two factors, first, competition for energy resources with China and Russia, competition with Russia over the construction of new pipelines, and second, the perceived American promotion of democratic revolutions throughout the region. While its partners all have shared security concerns about the so-called three evils of separatism, terrorism and radicalism, it is of course ironic that Russia and China seem to disregard the longer term impact of their anti-American stand in Central Asia. By opposing the U.S. the way they do, they are effectively bolstering the position of the Islamists.

The U.S. needs to work with its allies within the SCO to ensure this organization will not become an alternative alliance to NATO or other major international political military alliances. To accomplish this, the U.S. and the EU need to recognize once and for all that the real threat to region stability is posed by the Islamists and terrorists so that SCO is not the only international body active in this area.

Now to conclude, for the United States to ensure its energy and security interests in Central Asia a new framework is needed. In the short term the U.S. will not have much influence in the democratic reform process in the region. The carrots the United States and EU can offer the Central Asians will simply not be attractive enough for them to bite, while the sticks the West can use will not be painful to induce change.

We need to recognize also that there is no win-win strategy possible with Russia and Central Asia regarding energy given the Kremlin's use of energy as a political weapon and Gazprom's need to obtain as much of the Central Asian gas as it can to keep Russian domestic gas prices low and to provide uninterrupted gas supply to its European consumers.

The United States has two options, it can either give up, which is not advisable, or it can become directly engaged at the top levels

on this issue, just as the Russian Government has done throughout the last several years.

To devise an effective energy strategy for Central Asia, dynamics in the Caucasus, Black Sea region and the EU markets must be considered. We know from last year's gas cutoff to the Ukraine there is a direct link between Central Asian gas and Europe's own energy security. The markets are indirectly connected, but it would be benefited by a direct connection.

To accomplish this, the United States has to work together with the EU and be more effectively involved in the success of post-revolutionary Ukraine and Georgia as well.

Second, while Kazakhstan is a natural strategic partner for the United States and while this relationship clearly needs to be nurtured and strengthen, the United States cannot succeed in Central Asia by relying on one country alone. It has to find a way to cooperate with Turkmenistan on energy and with Uzbekistan on security.

Thank you.

[The prepared statement of Ms. Baran follows:]

**“Assessing Energy and Security Issues in Central Asia”**

**The United States House of Representatives  
Committee on International Relations  
Subcommittee on the Middle East & Central Asia**

**July 25, 2006**

**Zeyno Baran  
Senior Fellow and Director, Center for Eurasian Policy  
Hudson Institute**

Thank you, Mr. Chairman and Members of the Committee, for the opportunity to appear before you today. I am glad to participate in such a timely and critically important hearing.

I will discuss four key themes:

- I. Securing US energy interests in Central Asia;
- II. Forging mutually-beneficial strategic partnership with Kazakhstan;
- III. Countering anti-American developments within the Shanghai Cooperation Organization (SCO);
- IV. Recognizing security and stability concerns in Central Asia to advance US interests

**I. Securing US Energy Interests in Central Asia**

Once again, Central Asia’s energy infrastructure and resources have become a source of competition for the great powers. In this new rush, the two most important regional players are China and Russia. Energy-hungry China is actively working to reach long-term oil and gas agreements—and has billions of dollars to spend in order to obtain them. Russia is also spending considerable sums in the region in order to ensure it can maintain its monopoly over Caspian oil and gas transportation to Western markets. The US, however, is missing in action.

In the 1990s, the US rightly focused on the Caspian Sea region as an important non-OPEC source of oil. It also correctly identified the direct transportation of Central Asian gas to EU markets—rather than via the Russian-monopoly Gazprom network, or through a potential Iranian pipeline—as the best strategy for the region’s energy transportation future. While Central Asian gas will not reach US markets, the reduction of Russia’s energy monopoly in the region will nevertheless benefit the United States by curbing Moscow’s influence over the EU and its policies, especially regarding countries Russia still considers to be in its backyard. To this end, the US has already supported several non-Russian (and non-Iranian) oil and gas pipelines from Central Asia—one of which was just inaugurated.



The \$4 billion Baku-Tbilisi-Ceyhan (BTC) oil pipeline was formally launched in Turkey on July 13—more than a decade after the project was conceived. As the Presidents of Azerbaijan, Georgia and Turkey stated during the ceremony, this project is indeed historic and is a key steppingstone toward a new dynamic for the region. Having been closely involved with the BTC pipeline for the last decade, I clearly remember the naysayers who until a few years ago, cited various reasons why the project would never work; they said that the pipeline was not commercially viable, that there were insufficient oil reserves in Azerbaijan, and/or that Russia would never allow it to be realized. Of course, without top-level engagement and active diplomacy on the part of the US government, the project may not have happened. Standing at the port of Ceyhan two weeks ago, I could not help but wonder if and when the US would once again become seriously involved in Eurasian energy developments.

In addition to BTC, there have been other successes in oil transportation, in part because the groundwork was prepared many years ago, and because regional actors themselves have shared a common vision. For example, the Caspian Pipeline Consortium (CPC) oil pipeline from Kazakhstan to Russia and to the Black Sea was completed; however, Russian intransigence on expansion and tariffs is causing great difficulty for American companies holding a stake in the project. Another positive development took place in June, when the long-lasting negotiations between Azerbaijan and Kazakhstan (over the latter state's participation in the BTC pipeline) were resolved—albeit only after Vice President Dick Cheney's timely visit to Kazakhstan. (President Nursultan Nazarbayev was one of the signatories of the Ankara, Istanbul and Baku declarations, which were signed in 1998 by the governments of Azerbaijan, Georgia, Turkey and Kazakhstan to support the creation of the East-West energy corridor, and the BTC project as the main export pipeline within the framework of this corridor).

Securing the east-west flow of Caspian *gas* has been much more difficult; so far, efforts have not been successful. Russia clearly won the first round of the Caspian gas competition. While the US backed a trans-Caspian gas pipeline to transport Turkmen gas via an undersea pipeline to Azerbaijan (and from there, via Georgia to Turkey and onward to European markets) Russia was able to finalize a gas pipeline agreement with Turkey to send its gas there via the so-called Blue Stream pipeline underneath the Black Sea. Despite clear signs that the latter pipeline would materialize, the US did not take it seriously; many believed the technology was not there, derisively labeling it the "Blue Dream" pipeline. However, with Turkey as the main interim market for Russian and Turkmen gas, and with that market reaching short-term saturation following the Russian Blue Stream gas pipeline, the Turkmen project was no longer commercially viable. (Clearly the unpredictable Turkmen president Saparmurat Niyazov made the project difficult from the start, but it was only after Blue Stream was the clear "winner" that the project failed; Niyazov did not want to take on Russia directly.)

In part because of the authoritarian rule of Niyazov, until recently the US had abandoned its Central Asian gas strategy. The standard arguments were that the US should not engage in energy dialogue with Niyazov until and unless he made improvements to the democracy and human rights situation in the country. Given that he is not likely to do so,

it was deemed best to wait him out, and begin energy talks with his successor—no matter how far in the future. This policy was clearly not working. In fact, while the US waited, the Chinese and the Russians have moved in to fill the vacuum.

More recently, the trans-Caspian gas pipeline idea was revived by the US Administration, but this time starting with Kazakhstan. According to the new strategy, Turkmen gas will be added only later, if at all. The logic is that there is already plenty of flared gas in Kazakhstan that could instead be transported to Western markets. Given Kazakhstan's pragmatic energy development policy and demonstrated interest in the East-West corridor, this option seems to be the best way forward.

Yet this too may not materialize unless the US is seriously committed to changing the energy dynamics in Eurasia, which ultimately means confrontation with Russia's regional energy strategy. To come up with a coherent and pragmatic strategy, it is necessary to look at the broader Eurasian energy picture—specifically at the activities and plans of Gazprom. While many have wanted to turn a blind eye to the possibility that the US and Russia may not have a “win-win” option in Central Asian energy, it is clear that Russia is playing to win it all, regardless of US interests. This makes sense from Russian perspective: Gazprom's basic strategy is to maintain its monopoly in the region, with which it can purchase Central Asian gas at below world-market prices, channel it to lower-paying Russian customers, and sell its own domestic reserves to Western Europe at high prices. It can further protect its lucrative European markets by freezing out independent Central Asian suppliers. By maintaining and strengthening its monopoly power, Gazprom will strengthen its leverage (and that of the Russian government) over European gas consumers. To do this, Gazprom desperately needs continued supplies of Central Asian gas (primarily from Turkmenistan and to a lesser degree Kazakhstan) in order to meet its supply commitments.

Turkmenistan has long been the key to Gazprom's European markets strategy. Gazprom has long been able to buy Turkmen supplies to satisfy demand from the low-price Russian domestic market, and then selling Russian domestic production to European consumers at a price three to four times higher. In this way, Gazprom has been able to make billions of dollars in profit, and has avoided having to undertake expensive corporate restructuring and technology improvements to increase its domestic production. To meet its supply commitments to Europe, Gazprom needs Turkmenistan to continue to sell its gas at these below-world-market prices—which can only be done if Turkmenistan has no other outlet but the Russian pipeline network.

This unhealthy dynamic has existed for over a decade. In the early 1990s, Turkmenistan already began trying to use the Soviet-era transit pipeline from Central Asia to Russia in order to directly export gas to hard-currency markets in Europe; yet, even then Gazprom had no desire for Turkmen competition. Turkmenistan cut off gas supplies to Russia in 1997 over transit and price issues; Gazprom then declared that it would never allow Central Asian producers to use its pipeline system for exports to Europe.

This was the time the US recognized the broader geopolitical implications of this dynamic and supported the concept of transporting Turkmen gas to European markets via a Trans-Caspian gas pipeline, but did not succeed, as described above. With pressure from Russia and with no other option to get its gas to European markets, in April 2003 Turkmenistan locked itself into a 25-year supply deal with Gazprom. It reluctantly agreed to the arrangement, which designated EuraTransGas (the predecessor to the controversial RosUkrEnergO) as the intermediary for the shipment of the gas to Ukraine and western markets. A trilateral agreement established a 50-50 cash barter system for payments by Ukraine; the deal also provided for an increase in Russian purchases of Turkmen gas from 6 billion cubic meters (bcm) in 2005 to 10 bcm in 2006, eventually reaching 80 bcm in 2009.

In December 2004, Turkmenistan once again halted gas supplies to Russia and Ukraine. Ashgabat reportedly demanded \$60 per thousand cubic meters (tcm), but Russia's Gazprom declined to increase the price. In April 2005, Russia and Turkmenistan finally clinched a deal to end the price dispute. It was agreed that Gazprom would make all payments in cash at \$44/tcm, thus terminating the earlier barter arrangements. Then in October 2005 Turkmenistan requested another increase in the price of natural gas supplied to Russia. On December 30, 2005, Gazprom agreed to buy 30 bcm from Turkmenistan at \$65/tcm this year, including 15 bcm in the first quarter. (Last year, it bought 10 bcm).

Since then, Niyazov has belatedly realized that with the 2003 agreement, Gazprom was able to prevent independent access for Turkmen gas to Europe. Niyazov seems to have decided to try and break out of this situation—encouraged especially by Washington's renewed engagement with Ashgabat and by Vice President Cheney's historic speech in Vilnius on May 4, where he stated that "...actions by the Russian government have been counterproductive, and could begin to affect relations with other countries. No legitimate interest is served when oil and gas become tools of intimidation or blackmail, either by supply manipulation or attempts to monopolize transportation."

Cheney then traveled to Kazakhstan to lend the necessary political support. Subsequently, the leaders of Kazakhstan and Turkmenistan have taken a tougher line in negotiations with Gazprom. Kazakhstan began charging the company \$145 for its gas, up from \$50, and Turkmenistan demanded \$100, instead of \$65. When an agreement was not reached with Gazprom, Turkmenistan threatened to cut off gas supplies in September if by then there is no agreement reached.

The recent position of the Turkmen side indicates that it too now understands the unfavorable nature of the status quo—in which it sells gas at below world- market prices while being subject to the near total transport monopoly of another country—and may be willing to explore alternatives.

While Turkmenistan's internal dynamics have been problematic—driving away potential Western involvement—Niyazov needs support in his current effort to once and for all end Gazprom's control over the energy future of his country—and ultimately, of the entire

region. This support should not of course be intended to prop up Niyazov's authoritarian regime. Instead, it should be intended to help the EU, along with other key regional allies such as Georgia and Ukraine to achieve lasting energy independence. If high-level Western support is not forthcoming, Niyazov may once again give in to Russian pressure in the absence of any alternatives.

Clearly, all the same commercial and political challenges that prevented the trans-Caspian gas pipeline from materializing remain, and Turkmenistan (as well as Kazakhstan and also Uzbekistan) is only more dependent on Gazprom for export. While a trans-Caspian gas pipeline may not work, there are other creative ways to bring Central Asian gas to European markets. These will materialize only with active US involvement, as neither Kazakhstan nor Turkmenistan will act alone—if they did so alone, they would risk the fury of the Russian and Iranian regimes.

## **II. Forging Mutually-Beneficial Strategic Partnership with Kazakhstan**

While I have mentioned Turkmenistan as the key gas market in Central Asia, Kazakhstan is the largest oil producer in the region and the second largest energy producer in the CIS, after Russia. It currently ranks second among non-OPEC countries in its oil production and by 2015 is expected to produce close to 3 million bbl/d placing it within the top echelons of oil-producing countries and even higher among oil exporting countries. Thus, when it comes to oil, Kazakhstan is the crown jewel of Central Asia.

As mentioned above, Kazakhstan has joined the BTC pipeline and is sending oil to the Black Sea via the CPC pipeline. In both projects, American and Kazakh interests converged, thus making it a success for both countries. However, Kazakhstan rightly does not want to limit its options; it eventually hopes to export significant volumes of oil via Iran and is already closely cooperating with China as well. Ultimately, China's proximity and growing demand for oil will most likely make it Kazakhstan's largest oil consumer. China has in fact been very aggressive in gaining access to Kazakhstan's energy sector, in which it has invested heavily. China sees Kazakhstan as its major source of oil supplies for the medium and long-term future; a pipeline to China was opened in 2005.

Kazakhstan not only has the largest recoverable oil supplies in the region; it also has the largest gas production as well. It has around 2,000 bcm of explored natural gas reserves, with undiscovered natural gas reserves (including Caspian offshore potential) estimated at 8,300 bcm. In recent years, domestic gas production has averaged 12 bcm annually; by 2020, Kazakhstan hopes to produce 40 bcm per year.

Given Gazprom's Central Asian gas strategy, and following Cheney's visit to Kazakhstan, Russia refocused its attention on Kazakhstan—specifically on the gas sector. Russia has sought to lock in Kazakh supplies for the long run, thus preventing their independent transport to Europe—by way of, for example, a trans-Caspian gas pipeline. President Putin invited Nazarbayev to the G8 summit; subsequently, on July 17, they created a joint venture to process natural gas from Kazakhstan's Karachaganak gas field

(which is one of the world's largest gas condensate fields, located on the Russian-Kazakh border.) Moves like this make clear that the US should no longer take Kazakhstan and its pro-Western orientation for granted.

Situated between Russia and China, Kazakhstan has "stable and predictable" relations with the three major powers, the US, China and Russia, as well as with its Central Asian neighbors and Iran. For Nazarbayev to keep his country in close alliance with the US at a time when anti-Americanism is on the rise even in Central Asia, and when China, Russia, and Iran to different degrees are trying to push the US out of the region, he must be able to demonstrate that Kazakhstan's contributions and achievements are being noted and awarded—and that a mutually beneficial strategic partnership will be reached by the time of his visit to Washington in September.

While some have opposed President Bush's invitation to Nazarbayev on the grounds of the Kazakh leader's shortcomings on democracy and human rights, these criticisms must be put in perspective. While the democratic process may not be moving as fast as many have hoped, given the regional and domestic dynamics it is a relief that the Nazarbayev government has not abandoned its reform agenda altogether. It is time for the US to take off its rose-colored glasses and recognize that democracy building requires institution building, and, most importantly, patience. No Central Asian leader will listen to US lectures about democracy, given the current situation in Iraq and the broader Middle East. Moreover, if one is going to espouse a principle of not embracing oil-rich authoritarian governments, the White House should begin by no longer hosting the leaders of Russia or Saudi Arabia.

Kazakhstan has been one of the staunchest American allies—even though at times the US has taken this alliance for granted. With China and Russia having increased their diplomatic and commercial outreach efforts, and with the Russian media (very widely watched in Kazakhstan) broadcasting stridently anti-American messages, the US needs to be even more engaged in Kazakhstan; otherwise, it may become yet another "lost" country like Uzbekistan. Since the color revolutions in Georgia, Ukraine, and especially in Kyrgyzstan, other Central Asian governments have rightly feared a similar fate and drew closer to Russia and China—where rulers are equally concerned about such developments in their own countries.

For now, there are numerous factors that bring the US and Kazakhstan closer together. Kazakhstan wants to be, and can become, a regional hub—not only because of its geographic location, but also because it is richer and more stable than many other countries in the region. Kazakhstan also wants to become fully integrated with the international economic system, and hopes to join the WTO in 2007; it also wants to hold the OSCE chair in 2009. Kazakhstan is a model country in its efforts against the proliferation of arms and nuclear material, and is working with its neighbors to establish a nuclear free zone in Central Asia. It is also seeking to mediate between the West and Iran. In short, Kazakhstan wants to become a net contributor to regional and international security and economic development.

While it has not been widely reported, Nazarbayev has been the only Central Asian leader who has wanted the new Georgian and Ukrainian post-revolutionary governments to succeed. Last winter, while Georgia was in the midst of yet another crisis with Russia over gas supplies, Nazarbayev attempted to deliver some gas supplies to Georgia, though this attempt was thwarted by Gazprom's refusal. Recognizing the importance of foreign investment into the fragile Georgian economy, Nazarbayev has actively promoted the investment of Kazakh businesses in Georgia's infrastructure. In doing so, he has been serving US interests as well.

Kazakhstan now also wants to help Afghanistan in the same way—by sending in its companies and by investing part of its oil revenues to help rebuild this war-torn country. Kazakhstan is also eager to play a dynamic leadership role in economic development and regional cooperation with Pakistan and India. In this way, Kazakhstan will not only be a key US ally in bringing positive change to Central and South Asia, but will also gain experience as an investing country. After experiencing the inevitable challenges investors face in such markets, Kazakh businesses may in turn push for changes inside Kazakhstan as well.

The US should support Kazakhstan in its efforts in all these areas—not just for the benefits to broader American regional interests, but also for the positive effects on domestic developments. Hearing lectures about the evils of corruption or of political repression will not magically change Nazarbayev's calculations—which, unlike in the Western system, also include clan dynamics. The US should also respect the evolutionary model Kazakhstan has chosen, according to which the necessary economic basis (including a middle class) was first developed, followed then by political reforms. To do so otherwise, Nazarbayev feared, would have led to a collapse of the whole system. They had experienced just such a collapse at the close of the Soviet era, during which the political reforms of perestroika were not followed by the necessary economic developments. If full openness was reached too quickly, without the establishment of a democratic culture, Kazakhstan would never have been able to make the progress it made. For generations, the Soviet mentality held that the law was something to be avoided; or, at best, something to be exploited toward one's own ends. In this context, a cultural shift is necessary; given this context, Kazakhstan has made incredible progress, especially as compared to other Central Asian countries.

In September, the US should reach a mutually beneficial, comprehensive strategic partnership agreement with Kazakhstan—though not according to the model of the pact signed with Uzbekistan in 2002, which was forgotten shortly afterwards. The US and Kazakhstan share many interests and even many values; a forward-looking strategic partnership must include a recognition of shared values as much as shared interests. For example, Kazakhstan (like the US) is a multi-ethnic country with significant religious diversity; it wants to demonstrate to countries such as Iran and Afghanistan that it is possible for a multiethnic society to live and prosper in peace. Kazakhstan is also a secular Muslim democracy and a potentially great ally in the current war of ideas. It can demonstrate that it is possible for oil-rich Muslim countries to use their wealth to invest

in human capital and promote moderate Islamic teachings. A strategic agreement needs to include all these areas of common interest.

### **III. Countering anti-American developments at the Shanghai Cooperation Organization (SCO);**

Despite public denials by China and Russia (the co-chairs of the SCO) that the organization is becoming an anti-American alliance, facts on the ground indicate that it is indeed moving in that direction. These sentiments are a byproduct of two factors: competition for energy resources with China and Russia, competition with Russia over the construction of new pipelines, and the perceived American promotion of democratic revolutions throughout the region. The Sino-Russian energy and security cooperation is extremely significant in light of developments in and around Central Asia over the last several years. While it is difficult to fathom a long-lasting strategic partnership between the two countries, at least for now they seem to have decided to cooperate to reduce the influence and presence of the United States in Central Asia.

The SCO had previously been a weak regional alliance consisting of co-chairs Russia and China, and the Central Asian countries of Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan, with Mongolia as an observer. Yet, benefiting from the growing concern over perceived U.S. support for the revolutions in Georgia, Ukraine and Kyrgyzstan, Russia and China used last July's SCO summit to issue a joint declaration against the presence of the US military in the region. Soon afterwards, the US military was evicted from the Karshi-Khanabad air force base. Last year, India, Iran and Pakistan joined as observers as well; moreover, Iran has recently sought full membership.

While SCO partners all have shared security concerns about the three evils of separatism, terrorism and radicalism, it is ironic that Russia and China seem to disregard the longer-term impact of their anti-American stand in Central Asia: by opposing the US, they are effectively bolstering the position of the Islamists. The evolving jihadist groups benefit from the globalized "anti" movement, i.e. anti-establishment and anti-America—since America is the leader of the "established world order". This is why various seemingly illogical alliances are being formed—Russia's Putin is reaching out to Hamas, Iran's Ahmadinejad is cultivating ties with Cuba, and Venezuela's Chavez is praising the anti-American insurgents in Iraq.

All the familiar conditions that allow Islamist extremists to gain a foothold are present in Central Asia: injustice, corruption, repression, unemployment, big power competition, etc. There are also additional contributing factors, such as the vacuum, caused by absence of a viable ideology—following the collapse of Communism ideology, Central Asians did not experience the benefits of the "free world" and are acutely feel the need to "belong" and to have a fulfilling sense of identity—needs which the Islamists claim to satisfy.

The US needs to work with its allies within the SCO to ensure this organization will not become an alternative alliance to NATO or other major international political/military

alliance. To accomplish this, the US (and the EU) needs to recognize once and for all that the real threat to the region's stability is posed by the Islamists and terrorists, so SCO is not the only international body active in this area.

The best ally the US has inside the SCO is Kazakhstan; in fact, had last year's summit not taken place in Kazakhstan, the SCO final declaration about the US military bases would have been much harsher. It was thanks to Nazarbayev's careful balancing of interests that the statement was softer than it could have been. As I already explained, in order to pursue its interest in the region, the US must develop a comprehensive, mutually beneficial strategic partnership with Kazakhstan.

#### **IV. Recognizing security and stability concerns in Central Asia to ensure US energy interests**

Clearly, there will not be any significant investment in Central Asia's energy sector unless there is political stability and security in the region. Central Asian leaders will also remain reluctant to work with the US on energy issues while the US remains oblivious to their security concerns. In fact, the US interest in maintaining the security of the region—especially against Islamist fundamentalism—coincides with the interests of Russia and China, who also see such fundamentalism as a key threat. It also coincides with the interests of the Soviet-era authoritarian leaders, who fear that militant Islamism could prevent them from remaining in power. Yet despite these shared interests, there are key differences. Russia and China see the selective support of the US for democratic regime change in the region as a security threat; according to these states, such support may open the door for the rule of Islamist extremists. A rethinking of US democracy promotion—not of the concept itself, but rather of its implementation—is urgently needed to best secure US energy and security interests.

Otherwise, with the US essentially out of the picture in Central Asia, and with China and Russia steadily increasing their influence, the Islamists will get stronger as Central Asian governments become more repressive and less reformist. In other words, with China and Russia filling the political vacuum, the region's leaders will follow their worst authoritarian tendencies—thus dramatically increasing the appeal of the Islamist message of “justice.” Unfortunately, by following the logic of the principle that “the enemy of my enemy is my friend,” the Chinese and the Russians are exacerbating the conditions that support Islamist movements.

Moreover, the inability of the US to understand the actions and ideology of Islamists in Central Asia has prevented the development of effective American strategies. To place things in perspective, let me just discuss four key developments in Central Asia: the terrorist attacks in Uzbekistan in 2004, the overthrow of the Kyrgyz government in the so-called “Tulip Revolution,” the events in Andijan, and the recent developments in Tajikistan.

In 2004 there was a series of terrorist attacks in Uzbekistan—the first major incidence of violence in the country since 1999. The bombings were directed not just against Uzbek



targets, but were also aimed at the US and Israeli embassies. While it was clear that these attacks were well-planned and well-coordinated, not enough attention was paid in the West. Most Western analysts focused on the reaction of the Uzbek government (i.e., questions such as whether or not indiscriminate mass arrests took place), rather than on the goals and identity of the attackers. Despite the fact that it was waging its own “war on terror,” and despite its status as Uzbekistan’s “strategic partner,” the United States made only negligible efforts to investigate these attacks. The lack of response of the US greatly emboldened the terrorists who became convinced that because of the nature of the Uzbek government, they could get away with murder—literally.

A second development that emboldened the terrorists was the Western reaction to the overthrow of the Kyrgyz government, from which they distilled three important lessons. First, if framed the right way, (i.e., as a peaceful civic uprising against an oppressive, corrupt regime,) neither the US nor the Europeans would stop any opposition movement in the region. After all, until recently Akayev had been praised as “the poster child of democracy” in Central Asia, but many in the West were happy to see him removed from office. A second message was that the use of force (as also demonstrated by the Uzbek attacks) could be tolerated by the West as well. Third, extremists found that by exploiting the excitement and anticipation about color revolutions among the Western liberal media and the various democracy and human rights NGOs, they were able to convince the world that they were the “good guys.”

With the power vacuum in Kyrgyzstan, I believe it was relatively easy for the terrorists to plan the uprising in Andijan, which is close to the border between Uzbekistan and Kyrgyzstan. One may ask, however, why (if extremist elements were behind the Kyrgyz revolution) we have yet to see any overt Islamic elements there. The answer is tied to the strategy of the Islamist groups, such as Hizb ut-Tahrir (HT), that are active in the country: they are not yet ready to rise and do not want to become visible prematurely. If the Islamists wait for a few years, then they will easily gain influence—especially given that the current Kyrgyz government is unlikely to deliver on its promises on social and economic issues.

The planners of the Andijan uprising, the third major development in the region, seem to have waited to initiate it until they felt that the local and international context was right. Their planning seems, in this respect, to have been ideal. After the uprising and subsequent repression, most of the Western media and the international human rights and democracy NGOs immediately jumped on this “opportunity” to launch an anti-Karimov campaign. Again, there was very little interest in the terrorists’ identity or goals. (Note that while the Islamists and the terrorists use different operational tactics, they ultimately share the same end goal; the only difference is whether they adopt a long-term, social engineering route or that of a short-term, violent confrontation)

The overall inability of many analysts to understand how a group like Hizb ut-Tahrir operates is one of the reasons why the analysis of the Andijan events has been flawed. Most observers did not recognize the role of the Islamists in the uprising, even though there were shouts of “Allahu Akbar” by the organizers of the uprising—usually an

unambiguous sign of Islamist elements! In the future we can expect Islamists to be even more sophisticated and only use slogans such as “justice”—one simply needs to look at the people involved. In the case of Andijan, they were followers of the HT splinter group Akramiya.

What is the group Akramiya? There was a huge misunderstanding of this group as well. Akramiya’s founder is Akram Yoldashev, an Uzbek former HT member, who eventually left to create his own network. Yoldashev did not stray far from HT’s ideological fold, however, and his group shared HT’s ultimate goal of creating an Islamic state, while focusing mainly on activities in Andijan. In his writings and speeches (especially to Western audiences), however, Yoldashev was very careful—only those with a deep understanding of the political ideology of Islamism could see the threat Akramiya posed.

The end result of Andijan is that the US military is no longer present in Uzbekistan, at a huge cost to intelligence and counterterrorism efforts in the region. The West has also lost the ability to influence the Uzbeks to open up their political and economic systems. Now the Chinese and the Russians are guiding the Uzbeks—states that can hardly be counted on to improve the democratic or human rights situation in Uzbekistan.

Another consequence of Andijan is the flight of hundreds of people who are seeking refuge in various parts of Central Asia. Who are these people? Are they all really innocent civilians or are there Islamists among them? Many of these refugees sought refuge in Kyrgyzstan (and some in Tajikistan), as did many Uzbek Islamists, who for years have been fleeing repression at home to operate in the more open environment of Kyrgyzstan. In fact, it is believed that the Central Asian HT leadership is based in the Kyrgyz city of Kara-Suu, which has a large ethnic Uzbek population. Kyrgyzstan has generally been too soft on the Islamist issue; by the time its government realizes the threat posed by groups such as HT, it may be too late.

While it is hard to assess the veracity of their statements, Uzbek officials have recently been quoted as saying that terrorists now based in Kyrgyzstan are planning to attack Uzbekistan. Of course, given the Uzbeks’ anger at Kyrgyzstan for having sheltered these militants and their perception of this move as a hostile act against the Karimov regime, they may be intending to use the threat of attacks by Kyrgyz-based terrorists as an excuse to carryout military strikes on Kyrgyz territory, but it is unlikely. However, given the increased activity in the Ferghana Valley since the Andijan events, which further emboldened the terrorists, there is a strong possibility that Kyrgyzstan-based militants might indeed engage in cross-border attacks in an attempt to spark inter-state military conflict, which always benefits their cause.

That brings me to the fourth incident: the most recent incursion of militants from Tajikistan to Batken in Kyrgyzstan. It started in May when armed men attacked a border post and killed two guards, mortally wounding a third. The men then seized a stockpile of weapons, and after crossing into Kyrgyzstan killed a customs official and a civilian. These are not unlike the type of killings we saw in Andijan. They are also reminiscent of the January 2006 incident in which militants raided a Tajik prison, killed the warden, and

freed a prisoner with alleged ties to the Islamic Movement of Uzbekistan (IMU). In Andijan the freed prisoners reportedly had links to Akramiya. (Batken was already made famous in 1999 and 2000, when the IMU conducted raids from Tajikistan but were prevented by Kyrgyz troops in the Batken area from continuing into Uzbekistan.

It is very disturbing that there are so many heavily armed people operating in and around Tajikistan, Kyrgyzstan and Uzbekistan, especially because we do not know who they are (though some are likely to have come from Andijan). Government officials in all three neighboring countries are confused; they blame HT, IMU and others, but I suspect that they simply do not know. However, given the increased drug trafficking and the previous involvement of the IMU, which has been waiting in the mountainous areas of Pakistan and Afghanistan for the right time to reemerge, it seems safe to say that the group is beginning its activities again.

If the US remains on the sidelines of these developments, or worse, is perceived to be siding with the Islamists, then it will be extremely difficult to talk about increased energy or security cooperation with the Central Asians.

#### **Conclusions and Recommendations**

For the US to ensure its energy and security interests in Central Asia, a new framework is needed. Following the color revolutions and the determined Russian (and, to a lesser degree, the Chinese) effort to reduce the US presence in Central Asia, the US can no longer afford to ignore developments on the ground. In the short term, the US will not have much influence in the democratic reform process in the region. The carrots the US (and the EU) can offer the Central Asians will not be attractive enough for them to bite, while the sticks the West can use will not be painful enough to induce change.

As I outlined in my testimony to the Senate last year, there is no win-win strategy possible with Russia in Central Asia regarding energy given the Kremlin's use of energy as a political weapon and Gazprom's need to obtain as much of the Central Asian gas as it can to keep Russian domestic gas prices low, and to provide uninterrupted gas supply to its European consumers.<sup>1</sup> The US has two options: it can either give up, which is not advisable, or it can become directly engaged at the top levels on the issue—just as the Russian government has done throughout the last several years.

The US has made some efforts thus far to try to work with Central Asian leaders, especially Nazarbayev and even Niyazov; yet occasional visits by US officials will never be enough. It was extremely important that Vice President Cheney went to Kazakhstan in May; his personal engagement was critical in providing the impetus for an agreement on trans-Caspian oil shipments and in securing Kazakhstan's commitment to explore the possibility of a trans-Caspian gas pipeline. Yet nothing was done to follow up on his visit so far. Instead, it was Russia that acted quickly, reaching yet another agreement for

<sup>1</sup> Testimony on "Energy Supplies in Eurasia and Implications for U.S. Energy Security." International Economic Policy, Export and Trade Promotion Subcommittee. U.S. Senate. September 27, 2005.

Gazprom to transport Kazakh gas to European markets. The countries of Central Asia, as well as transit and consumer countries such as the South Caucasus states, Turkey, Bulgaria and Greece, will need to see continued engagement by the US as Russia inevitably continues its top level gas diplomacy.

An opportunity was lost at the recent G8 summit to urge Moscow to abide by commonly-accepted commercial norms by ratifying the Energy Charter Treaty. The Charter Treaty commits its signatories (Russia has signed it, but has refused to ratify it) to liberalize pipeline access and to prohibit the unilateral halting of supplies to any country. It is intended to integrate the energy sectors of the former Soviet countries with that of Europe. Instead of accepting international norms, the Duma instead passed a law to legitimize Gazprom's monopoly on gas exports. It is simply irresponsible for American policy makers to let Russia continue to benefit from exposure to foreign investment and integration into the world economy, including the prospect of WTO membership, while excluding the US and Europe from any meaningful energy involvement in the former Soviet space.

To devise an effective energy strategy for Central Asia, dynamics in the Caucasus, Black Sea region and EU markets must be considered. We know that Russia will increase the gas price to Ukraine—it delayed such a move in order to avoid a headache at the G8, and to wait await the formation of a new Ukrainian government. If the pro-Russian Yanukovich becomes the Prime Minister, then the price increase may be more gradual, if a pro-Western leader takes power, then the price may be tripled. We also know from last year's gas cutoff to Ukraine that there is a direct link between Central Asian gas and Europe's own energy security. The markets are indirectly connected, but it would be benefited by a direct connection.

To accomplish this, the US (together with the EU) needs to be more effectively involved in the success of post-revolutionary Ukraine and Georgia—first by recognizing that the Kremlin does not want them to succeed (and in fact is actively trying to undermine both states' reform process) and also by helping them with their own energy-diversification and institution building efforts.

Second, while Kazakhstan is a natural strategic partner for the US, and while this relationship clearly needs to be nurtured and strengthened, the US cannot succeed in Central Asia by relying on one country alone; it has to find a way to cooperate with Turkmenistan on energy and with Uzbekistan on security.

Finally, the threat from the Islamist extremists in Central Asia is real, and not simply an excuse used by authoritarian leaders to crack down on their domestic opponents. It is true that more repressive policies are indeed making the Islamists' appeal stronger. But the answer is not to let the SCO take over the security agenda, which will only make the threat of terrorism worse for the region's own stability and broader US interests. The US has to come to grips with the ideology and framework strategy of Islamist group in order to be able to counter the further strengthening of this movement in Central Asia and beyond.

Ms. ROS-LEHTINEN. Thank you so much.

**STATEMENT OF STEVEN BLANK, PH.D., RESEARCH PROFESSOR OF NATIONAL SECURITY AFFAIRS, U.S. ARMY WAR COLLEGE**

Mr. BLANK. Madam Chairwoman, Members of the Subcommittee, it is a great honor to testify before you again on United States interests in Central Asia and the challenges to them. In deference to my colleagues' expertise on energy I am going to concentrate on the framework of security, of which energy is part, because our efforts to achieve the security and stability of Central Asian states, which as Under Secretary Armitage said in 2004 is in the vital interest of the United States, is related to providing them with the assistance they need to gain energy independence.

Today American interests in Central Asia, a region of growing strategic importance, are under attack from three sources: Russia, China, the authoritarian misrule of the Central Asian rulers themselves in many cases, and thirdly from the resurgence of the Taliban in Afghanistan, because if we lose in Afghanistan and victory there is the only option for us, then we will be facing another terrorist upsurge like we did 5, 7 years ago which will threaten all of Central Asia.

Because the security of Central Asia has become connected to the vital security interests of the United States, our presence in Central Asia in all of its dimensions, economic, military, political and so on, is regarded by Moscow and Beijing and to a lesser degree Tehran as a threat to their vital interests and they have spared no effort to try to oust us from Central Asia.

Russia, as has been noted here, has attempted to create a gas monopoly. They failed to create an oil pipeline monopoly, but the gas monopoly is vital to Russian politics in general. Indeed, without the gas monopoly, as Ms. Baran's testimony indicates, the political economy of the current Russian regime would be forced into severe alteration and reform. Therefore, an American policy of Central Asia has knock-on effects of reform that are important not just in the region itself but beyond.

Furthermore, the Russian attempt to create a political and military and economic monopoly in Central Asia embraces efforts to create a security bloc through the Collective Security Treaty Organization and in conjunction with China through the Shanghai Cooperation Organization. While members of the SCO disagree as to what its main focus ought to be, there is nonetheless concern, as reported, for example, in today's *New York Times*, that the SCO might evolve into a kind of anti-NATO bloc.

It is by its charter a collective security organization already and its members have already participated in joint exercises. So there is a certain amount of pressure to do that.

At the same time the Russians have their own military bloc, the CSTO, which I alluded to, and they are also trying to exclude us from the Caspian by creating what they call a CASFOR, a naval force under Russian domination that would exclude nonlittoral states from any participation in the defense of the area, defense of world platforms, counter-proliferation and counter-smuggling operations.

We have a major stake not only in the stability and security of these states but also in helping them achieve more liberal and more democratic results over time in terms of their economics and politics, and they can only do that if they are free to choose among diversified pipelines, diversified customers for their main products, which in this case is energy.

That is also true, for example, for states not commonly thought of as major energy producers like Uzbekistan. Uzbekistan does produce a fair amount of gas and oil, enough to support itself and export some, but it is a major cotton and copper producer and to the extent they have a market beyond Russia and China, they have opportunities to deal with other states and export those goods and participate more in the global economy and less in a closed bloc.

Now the impact, therefore, of American policy has to be felt across the border; it has to be felt with regard to what has been called the war of ideas, where we have been frankly AWOL, where we do not have an information policy that counts as Russian propaganda says we are sponsoring revolutions in Central Asia.

We need a broader economic policy than simply ensuring energy access. While we have been successful in energy access with regard to oil in Kazakhstan, we have failed with gas and we need to get on the ball with all the other major items involved.

Secretary Rice's initiative with regard to linking up South Asian and Central Asian electricity networks is a commendable example of what needs to be done, but it needs to be thought of in terms of a comprehensive economic policy involving not just the United States Government but the EU and international financial institutions. Similarly, military assistance and training through the Partnership for Peace and getting our allies' support in Afghanistan, and the situation in Afghanistan is quite critical at the moment, is also an essential aspect of policy because if we fail in Afghanistan we put the whole of Central Asia at risk.

So in conclusion I would like to say that we are facing a coordinated attack on our policies in energy with regard to democratization, with regard to defense and security in Central Asia from Moscow, Beijing and to a lesser degree Tehran, as well as from the Taliban in Afghanistan and their supporters, and also facing obstacles due to the authoritarian misrule or fragility of several, if not all, of the Central Asian Governments.

This makes the obstacles to our policy quite considerable in their extent and scope, but because of the fact that Central Asia is so important strategically and in energy terms, it is essential that we find and devise policy mechanisms and frameworks which will enable us to overcome those challenges in the near and long-term future.

Thank you.

[The prepared statement of Mr. Blank follows:]

PREPARED STATEMENT OF STEVEN BLANK, PH.D., RESEARCH PROFESSOR OF  
NATIONAL SECURITY AFFAIRS, U.S. ARMY WAR COLLEGE

Madam Chairwoman, Members of the Committee, it is a great honor to be invited once again to testify before you on U.S. interests in Central Asia and the challenges to them because Central Asia is an area whose importance to the United States is universally acknowledged to be growing. In 2004 Under Secretary of State Richard Armitage told Central Asians that "stability in the area is of paramount importance

and vital national interest.” Yet today American interests are under attack from three sides in Central Asia: Russia and China, the Taliban and their supporters, and the authoritarian misrule of Central Asian governments. While some of these attacks are or would have been unavoidable, others are due to shortcomings in our own policy. I hope to address these deficiencies in our policymaking in recommendations for extricating ourselves from the present unhappy situation confronting the United States there.

U.S. interests in Central Asia are primarily strategic. They derive first from the proximity of this area to Russia, Iran, and China. Hence any U.S. presence in Central Asia is viewed by those states as a standing challenge, if not a threat, to their vital interests which in the Russian and Chinese cases are inherently imperial in nature and entail a diminution of the effective sovereignty of Central Asian states. Therefore it is not surprising that the paramount U.S. interest under both the Clinton and Bush Administrations has been to uphold the integrity, independence, sovereignty, and security of these countries against Russian and Chinese efforts to dominate them and circumscribe their freedom. In other words, energy access, though important, is not and should not be the primary driver of U.S. policy here. This policy of defending the independence, integrity, and security of these states extends the long-established vital interest of the United States in forestalling the rise of any Eurasian empire in either continent which could challenge us. And there should be little doubt that imperial success in Central Asia would only whet the appetite of the rulers in Moscow and Beijing for further extensions of their hegemonic aspirations. Certainly they have long discerned that a great power rivalry or competition for influence is rising.

Since 9/11/2001 a second vital interest for the United States has appeared, namely defense of the United States and of Europe from Islamic terrorism personified by Bin Laden and expressed by the Taliban and their allies. Consequently victory in Afghanistan is an unconditional vital interest which must be achieved just as much if not more than as in Iraq. The other important interests of the United States apply first of all to what might be called an open door or equal access for U.S. firms in regard to energy exploration, refining, and marketing. To the extent that these states’ large energy holdings are restricted to Russia due to the dearth of pipelines or oil and gas, they will not be able to exercise effective economic or foreign policy independence. Therefore energy access on equal terms to our own and other Western firms relates very strongly to the larger objective of safeguarding these states’ independence, sovereignty, and prospects for secure development.

Not surprisingly, the leitmotif of U.S. energy policy has been to foster the development of multiple pipelines and multiple links to outside consumers and providers of energy, including more recently electricity, with regard to India. The energy producing states here recognize that their security and prosperity lies in diversification of pipelines so here our interests and theirs are in harmony. At the same time we have also sought to prevent a Russian pipeline or overall energy monopoly from forming with considerable success in the oil market, while we have been much less successful with regard to natural gas. And simultaneously we have also sought to isolate Iran from Central Asian energy by urging states to build pipelines that bypass Iran and enforcing sanctions upon those states and firms who are trading with Iran.

Examples of such pipelines that bypass Iran and Russia are the Baku-Tbilisi-Ceyhan or BTC pipeline where we have urged Kazakstan to join it and to participate in the construction of a pipeline under the Caspian Sea; a projected Turkmenistan-Afghanistan-Pakistan or TAP line which may or may not be extended to India, or alternatively a potential pipeline using newly discovered sizable Afghan energy resources to the Subcontinent; and the recent attempt to link up together Central Asian and South Asian electricity networks. Indeed, U.S. and Western firms have been relatively successful in gaining access to Kazakstan’s oil fields in terms of contracts for exploration or refinery, and marketing. Finally we have a major interest in promoting domestic policies in all these states—the five former Soviet republics and Afghanistan—that will lead them over time toward democratization, open markets, open societies, good governance, and eventually as a result, to their lasting security against both internal and external challengers.

Today all these interests are under attack and the U.S. policy in Central Asia is embattled and under siege. Moscow and Beijing, as well as to a lesser degree Tehran, view our political and strategic presence in Central Asia with unfeigned alarm. Despite their protestations of support for the U.S. war on terrorism, in fact they wish to exclude us from the area and fear that we mean to stay there militarily as well as in all other ways indefinitely. In this campaign Moscow has taken the lead with Chinese and Iranian support. Russia has sought with great success to establish a gas cartel under its leadership and prevent Central Asian states from sell-

ing natural gas on the open market, thus perpetuating their backwardness, dependence upon Russia, and slowing their economic growth. It also has brought considerable pressure to bear upon Kazakhstan, if not Turkmenistan and Azerbaijan, to desist from supporting the BTC pipeline or the idea of constructing a pipeline under the Caspian Sea. Such policies also lead, in both Russia, and the local regimes, to the consolidation of authoritarian governments that rely on resource rents to keep themselves in power, i.e. they are petro-states. Indeed, arguably the Putin regime could not survive in its present structure if it did not dominate Central Asian gas and oil sectors. Therefore American success in opening up those sectors has knock-on effects in Russia beyond the more directly observable consequences of such liberalization in Central Asia.

Russia has also waged a stubborn campaign to prevent Central Asian states from affiliating either with the U.S. or Western militaries. It seeks to gain exclusive control of the entire Caspian Sea and be the sole or supreme military power there while states like Kazakhstan and Azerbaijan rely upon Western, and especially American assistance to help them develop forces that could protect their coastlines, exploration rigs, and territories, from terrorists, proliferation operations, and contraband of all sorts. Second, Russia has formed the Collective Security Treaty Organization (CSTO) to prevent local states from aligning with NATO or getting too involved with its Partnership for Peace (PfP) program. Another purpose of the CSTO is to create legal-political grounds for permanently stationing Russian forces and bases in Kyrgyzstan, Tajikistan, and possibly Uzbekistan ostensibly to defend these regimes against terrorism. And the CSTO, under Russian leadership is constantly seeking to augment the scope of its missions in Central Asia in order to cement a Russian dominated security equation there. So in reality these forces are there to defend Russian interests and/or keep the current authoritarian regimes in power. Despite Russia's relative military weakness and unbroken military decline in 1991–2000, Russia now has bases in 12 of the former Soviet republics and the expansion of its capability to project power into these areas if not beyond is one of the leading drives of current Russian military policy. Similarly another key drive of Russian military policy is the effort to develop, sustain, and project the land, sea (Caspian), and air capabilities needed to prevent local governments from either receiving U.S. weapons and assistance or allowing U.S. military bases in their territories. For example this program is the driving force behind Russia's proposals for a Caspian Sea Force (CASFOR). The practical outcome of so exclusive a force made up only of littoral states would be to confirm the littoral states as dependencies of Russia, put Iran in a subordinate position in the Caspian, and exclude foreign military or energy presence there.

Simultaneously, Moscow and Beijing have also waged an unrelenting campaign beginning in 2002 to impose limits on the duration and scope of America's presence in Central Asian bases and more generally in the region. They succeeded in Uzbekistan thanks to our misconceived policies there and are constantly bringing enormous pressure on Kyrgyzstan to force us out of the base at Manas. Probably the combination of our deep pockets, high-level intervention by Secretaries Rice and Rumsfeld, and renewed fighting in Afghanistan has allowed us to stay at Manas on condition of paying ever higher rents for its use. Russia has also sought to forestall these states from buying Western equipment by selling them Russian weapons at subsidized prices. And in return for their debts it has sought to restore the Soviet defense industrial complex by buying equity in strategic defense firms located there. Russia and China have also engaged in training programs for Central Asian officers.

Most significantly Moscow and Beijing have utilized the Shanghai Cooperation Organization (SCO) as a platform for a collective security operation in Central Asia, sponsoring both bilateral and multilateral Russian and Chinese exercises with local regimes and with each other on an annual and expanding basis since 2003. The SCO's utility to Moscow and Beijing does not end here. While there are significant differences between Russia and China and among the other members and observers (India, Pakistan, Iran, Mongolia) as to what the SCO's primary purpose and function ought to be, i.e. whether its main function should be promotion of trade and economic development; or to be a provider of hard security and another energy forum that Russia would dominate; or to be a genuine basis for regional cooperation as Kazakhstan and the smaller states would prefer, it clearly has been envisioned by Beijing and Moscow as a basis for attempting to unite Central Asian governments in an anti-American regional security organization. There are also divisions among the members as to whether its membership should expand to include the new observer states of Iran, Pakistan, India, and Mongolia. Nevertheless, Beijing openly and consistently proclaims the SCO to be a model for what it is trying to do in regard to Asian security in Southeast Asia and beyond, i.e. replace the U.S.-led alliance system in Asia with one of its own creation that is attuned to its rather than



to our and our allies' stated values and interests. Therefore we should take this organization and its development seriously as a template for China's and Russia's, if not Iran's broader foreign policy objectives.

Finally both Moscow and Beijing have waged substantive, comprehensive, and systematic efforts to undermine our presence in Central Asia due to our support for democratic reform. By doing so they also consciously strive to foreclose even the possibility of such reforms in Central Asia. Thus they have become stalwart champions of the status quo which includes massive corruption, repression, and the promise of sweetheart deals, if not promises of support for the current dictator's chosen heir. Russia, China, and local governments have unceasingly advanced and disseminated the idea that the U.S. or the West in general were and are behind the so called color revolutions, and are attempting to overthrow local governments and replace them with supposedly more pro-American forces who have no domestic support. As local dictators tend to believe that they are irreplaceable, and that all opposition is external and terrorist in nature, this is an easy idea to sell. It is especially easy to sell this idea when it is backed up by a relentless state-run media campaign from Moscow, Beijing, and the local regime, and when there is no effective or coherent response, as was been the case with U.S. policy. Although there are reports that the U.S. has opened information centers in Kyrgyzstan and Azerbaijan and spent \$43.7 million to do so, it is clear that this effort is still too little too late. Indeed it may fairly be said that we had and apparently still do not have no discernible public information policy in Central Asia or that we even took the idea of rebutting these charges seriously. Consequently we are now paying the price for our complacency and neglect.

Thus U.S. policies in regard to security, energy access, and democratization are all under attack in Central Asia from the local dictators, Presidents Putin, and Hu Jintao, and their governments. Adding to the difficulties are the facts that we face a resurgent Taliban, backed up with enormous drug revenues, Pakistani support, and an inconsistent international effort to rebuild Afghanistan while its government remains weak and unsure of itself. As a result, we have lost the base at Karshi Khanabad, face constant pressure in Kyrgyzstan and elsewhere, and are fighting a revived and strengthened Taliban under conditions that are in many ways less favorable than in 2001.

Uzbekistan evidently listens only to Moscow and Beijing and we are certainly not Kazakstan's priority partner even under the best of circumstances. Therefore the State Department's hope of relying upon Kazakstan as the strongest partner we have in Central Asia and as a potential leader for advancing the goals we wish to see there is fundamentally unsound and cannot serve as a basis for a successful U.S. policy in the future. Although Kazakstan has made numerous proposals for regional cooperation among the local governments and has occasionally stood up to Russia by selling gas to Georgia and joining the BTC pipeline, its calls for regional integration have gone nowhere and the limits upon it for independent action are quite clear. While it will continue to work with Washington on pipeline issues, accept foreign investment, continue to work bilaterally with Washington to obtain equipment and training for its self-defense in and around the Caspian, and take part in the PFP, we cannot expect it to be a leader in Central Asia against Moscow and Beijing. Neither should we ignore opportunities for engagement with all the other states. Any U.S. Central Asian policy must take advantage of every opportunity to interact productively with all of the local governments.

#### *Recommendations*

In order to regain our footing here we must first understand where we have gone astray. Our mistakes consist in shortcomings in our own policy processes and equally, if not more importantly, in our policies as seen in Central Asia. We cannot recover our position in Central Asia without addressing both sets of issues quickly and decisively. First of all, our policy process including the inter-agency process, with regard to Central Asia and many other issues is broken. We saw this in the uncoordinated response to the Andizhan massacre in 2005. The Pentagon, rightly, I believe, emphasizes our strategic interests in the region while the State Department emphasizes democracy as its main priority and invokes President Bush's statements on the subject dating back to his second inaugural.

While such statements make powerful rhetoric; in Central Asia, according to expert observers, they are empty and irrelevant. Moreover, they contribute to the undermining of our security objectives because they feed the belief that we are seeking to unseat reigning rulers, and second, since they believe that the only real opposition is Islamic terrorists, our position fuels their belief that we neither understand the region nor their interests. If democratization is our first priority here than we have given the region over to Russia and China for we have convinced local leaders that

these aforementioned beliefs of theirs are correct whatever the real truth might be. And a Russian or Chinese dominated Central Asia is hardly compatible with any progress towards democratization.

Second, this contradiction within our government implies to local elites that we are not serious about democracy. Moreover, and third, since we have steadily cut back on economic assistance to Central Asia, including Afghanistan and seem to have no visible economic policy for the area, we have also stimulated the belief that we will not stay the course and that this region means less to us than our previous rhetoric would otherwise imply.

Fourth, our refusal until quite recently to address the issue of Afghanistan's drugs has led to an explosion of the scourge of narcotics across Central Asia and reinforced the belief that we are not sensitive to local states' real security interests and needs. Fifth, our utter lack of a viable information policy that is tailored to this region's mores, cultures, and special needs, has reinforced all those previous negative feelings while also leaving the Russians and Chinese to operate with total freedom in support of retrogressive rulers or corrupt dictators. Sixth, we have failed to foresee what might happen in states that are so misgoverned that violence is likely, either through economic distress, or through a succession crisis. Thus our reactions have been uncoordinated and haphazard with resulting negative consequences for U.S. policy that we can all see today. Uzbekistan and Turkmenistan are likely to be failed states when the present rulers leave the scene and in Uzbekistan we have already seen, as has the Uzbek government, that it is vulnerable to both violent incitement and to outbreaks of public violence.

We lost our position in Uzbekistan, not because of our championing of human rights but because we neglected to take it seriously, address its real problems, pay off Islam Karimov, its President, as we were doing in Kyrgyzstan, and because of the accumulated outcomes that are traceable to the aforementioned defects of our policy process. In 2004 Assistant Secretary of State Lorne Craner testified that,

Central Asia has a major strategic importance for the United States and Uzbekistan inevitably plays a key role in our policy toward the region. It occupies, as we know, a core position in Central Asia. It has, by far, the largest population, and it is the guardian of a centuries long tradition of enlightened Islamic scholarship and culture. And it boasts the largest and most effective military among the five countries.

Yet today due to our policy failures we have little or no dialogue with this state and formerly pro-American politicians like former Defense Minister Golunov, languish in jail because of their ties to the United States. These trends take place even though the recent successful removal of nuclear materials from Uzbekistan shows that such dialogue can be sustained if the issue is sufficiently vital.

Seventh, NATO's continuing dilatoriness about sending troops to Afghanistan and giving them sufficiently robust rules of engagement has slowed our ability to counter the Taliban resurgence, especially as we are reducing the number of troops there. Since it appears that more troops might be needed, this is again a wrong sign. Eighth, we have failed to press the international community sufficiently strongly to make good its pledges to Afghanistan, without which reconstruction there will be greatly prolonged if it even is successful.

A successful policy must learn from these mistakes and surmount them. Therefore we must undertake the following steps. First, we must repair our broken policy process. The Administration must decide what Central Asia's real importance is to the United States is and assign sufficient material and political resources to back up that investment. Toward this end the President and his cabinet members must impose policy discipline on the players after arriving at a consensus among themselves on these issues. They must establish clear and coordinated inter-departmental priorities for our emplacement in Central Asia and then proceed to implement them. In my opinion, the regional security and independence of these states must come first for otherwise no democratization is remotely conceivable. But this does not mean neglecting democratization as an issue. Rather we must engage both governments and civil society or opposition groups who are not terrorists. We must engage governments with the argument that they have signed international conventions upholding these practices and that we are not trying to supplant them, but rather ensure that their countries become both more secure and prosperous. Since their interest is at stake in a violent overturn, this argument may have some resonance. But it must be backed up by increased assistance and real economic and other policies that address their needs.

In this connection it is essential that we continue and upgrade the series of high-level visits by cabinet members and even Vice-President Cheney and reinforce those by visits by lower ranking officials on a regular basis to monitor policy implementation. It might also be useful to set up a governmental commission like the Gore-

Chernomyrdin commission on Russia or subsequent commissions of this sort to ensure regular progress by both sides in mutually consultative process that addresses common needs and projects. Likewise it is very important to come up with alternatives for regional association to Russo-Chinese projects. Reports of a projected association to fight the drug trade are therefore to be welcomed, not just because Russian analysts fear they signify an anti-Shanghai Cooperation Organization ploy, but also because they show we mean business with regard to Central Asian states' real security threats.

Similarly in this connection it is imperative that we find ways to reestablish a viable policy dialogue with Uzbekistan even if only begins at a low level. As I stated above, U.S. policy cannot omit any local government that wishes to cooperate with us on a mutually beneficial basis. Our Central Asian policy, to be successful must not only be multi-dimensional, it must be all-inclusive, i.e. it must include even Uzbekistan. If this cooperation or dialogue are built on a solid foundation, even at a low level, then they can enable us to talk to that regime on issues of shared concern and rebuild mutual confidence, for we know that President Islam Karimov fully understands the nature of whom he is dealing with in Beijing and Moscow. Even though he may wrongly feel he was betrayed by America, he cannot afford to become a total satellite of Moscow. Neither can we afford to let Uzbekistan fall into that trap especially as it might turn again to violence at the first sign of Karimov's weakness or when he leaves the scene.

Second, having decided upon our priorities and having begun to implement them we must also address NATO, the EU, and India, our new strategic partner in this area, to devise an agenda or agendas of common activities oriented to achieving the objectives that we all share and then work to fulfill those agendas whether it be in the five former Soviet republics or Afghanistan. This applies as much to the integration of energy and electricity links either to Europe or to India and Pakistan, as it does to sustaining the comprehensive recovery of Afghanistan and victory over the Taliban.

Third, it is absolutely essential that the U.S. government quickly develop and put into practice a viable public information program using all the media at its disposal for Central Asia. This program must address itself to the cultural framework of the region and present the truth about American and other policies. We must also endeavor to retain and even open up every outlet available to us like Radio Europe Radio Free Liberty in order to get the word out about events affecting this area. Under no circumstances can we concede either to Moscow or Beijing, or to local dictators a total monopoly over the means of information.

Fourth, we must devise rewards and punishments for those who would use the SCO as a means to eject us from Central Asia. This also means upgraded bilateral relations with local governments to strengthen them against Russo-Chinese pressures. While we obviously have a wide-ranging agenda with Moscow and Beijing; we should not give away these states' interests in return for progress on other issues. For example, Washington and Moscow are about to negotiate on letting Moscow become a center for storing spent nuclear fuel and or for distributing it to states who wish to use it peacefully. While this can prove helpful with regard to Iran or even North Korea; behind it also lies Moscow's desire to dominate the entire field of energy in Central Asia and deprive those states of any independence access to use the energy buried in their own territories. Therefore we must be careful in how we approach those two larger states. And as a general rule we must engage the states round Russia or China as much as we do Russia and China in order to prevent a successful neo-imperial policy in Central Asia or elsewhere for that matter.

Fifth, we must continue to offer these states: Georgia, Azerbaijan, and Kazakhstan in particular the resources with which to defend their sovereignty and territory independently of Moscow and Beijing if they so choose. We cannot allow Russia and Iran to turn the Caspian Sea into a closed sea for their own exclusive benefit or allow the CSTO and SCO to be the only game in town when it comes to the provision of security. Strong bilateral relations with local governments and their militaries as well as strengthened ties to NATO through the PFP are essential in this domain of their and our activity.

Sixth, as stated above, our economic activity here must go beyond ensuring equal energy access to helping these states move forward on their overall independence, economic, and political development by supporting diversification of energy connections; helping them build pipelines to the seas and oceans; and allowing them to bring all their products more easily to Asian and European markets. But that policy must also include trade, investment, and financial instruments as well and not be restricted to energy. This also includes supporting projects that would upgrade and integrate Central Asia's infrastructure so that economic ties among states and peoples can flourish more rapidly than would otherwise be the case. We are uniquely

situated to do this given our strong economic position and ties to international economic institutions, a trump card in our hand relative to both Moscow and Beijing, let alone Iran. Consequently such efforts must be intensified.

Seventh, while doing all this we must also be upgrading our government's capability to act promptly in case of unforeseen contingencies. The State Department's office of Reconstruction and Stabilization, under Ambassador Herbst, must be directed, if it not already doing so, to begin planning for contingencies having to do with the real possibility of state failure in Central Asia, particularly Uzbekistan and Turkmenistan. If and when that occurs it will usher in violent responses to that condition of state failure. And we cannot allow this chaos to go on in uncontrolled fashion or to abdicate our real interests in the region. Adequate forecasting, and rapid response policies, not only military ones either, must be thought through and implemented so that we are ready to move here on a moment's notice if necessary.

For example, some Russian analysts are publicly forecasting that if Kyrgyzstan, a very fragile and crime-ridden oligarchy, undergoes political collapse, Russia and Kazakstan could impose some kind of protectorate until new elections and stability take hold. In this scenario Washington would welcome such an action because our resources are so overstretched that we could not act and we would prefer that Russia intervene rather than China. This is because China might use the threat of Uyghur separatism of its Muslim minorities as a pretext for sending troops into Kyrgyzstan and taking it over. Such scenarios underscore the growing importance of this region and the urgency of paying more attention to and being prepared to move rapidly into Central Asia if a major crisis ensues there.

With regard to Afghanistan we should undertake the following actions in order to maximize its chances for both victory and reconstruction under an enduring and legitimate government that is moving towards democratization. First, more pressure on Pakistan is needed to reduce if not terminate its support for the Taliban and other terrorists. If our good offices are requested and acceptable to both sides we should also use them with regard to the glacial but ongoing negotiations on Kashmir between India and Pakistan. Second, we should promote India's overall ability to interact economically with Central Asia and Afghanistan, seek pipelines and electricity outlets, as we are doing now in order to strengthen the individual economies and politics of the region, but also to build a foundation for greater and more enduring regional economic integration through infrastructural links that open up these areas to greater development. And, we should also encourage Indian support for the Karzai regime in Afghanistan.

Fourth, we need to keep pushing NATO members to maintain, and if necessary expand their commitment to Afghanistan and to provide their forces with sufficiently robust rules of engagement to get the job done on the ground. Fifth, while doing so we must also pressure the international community to fulfill their pledges to the revival of Afghanistan and to join us in doing so in a way that strengthens the Afghan population's own capability to rule itself without external interference or tutelage. This also means a substantial offensive against the drug lords and the drug problem which is now the main financial pillar for the Taliban if not other terrorist groups. Success in this particular campaign requires a comprehensive approach to the problem and can only be undertaken if there is sufficiently strong political will among all the players in and out of Afghanistan. And throughout this process pressure must be kept on Pakistan to encourage it to terminate its policies of sheltering and supporting the Taliban and the terrorists who seek to operate in South Asia. As long as they have a safe haven they will continue to destabilize both South and Central Asia, thereby negating our best efforts in both regions.

While none of these recommendations for Central Asia and Afghanistan represents a panacea, especially if undertaken in individual, or uncoordinated, or incomplete fashion; taken together they can provide a foundation from which we can move to repair our policy shortcomings and retrieve at least some, if not all of our past position here. If Central Asia is as important as Under-Secretary Armitage said it was, we must be prepared to demonstrate that importance in both word and deed and do so through a coordinated multidimensional strategy. This kind of strategy brings to bear all the instruments of policy, not just the military instrument, and does so in ways that leverages the superior ability of the United States and its allies to work for peace, security, liberty, and prosperity. Although this is going to be the work of years, if not decades and generations, it is incumbent upon us to begin doing so now because if we don't seize this day and those that follows, the crises that could engulf this region will more likely than not do so soon. Thus they will come more quickly and more violently than would otherwise have been the case. And then even all of our best efforts may not prove to be enough to avert those crises.

Ms. ROS-LEHTINEN. Thank you, Dr. Blank.  
Dr. Cohen.

**STATEMENT OF ARIEL COHEN, PH.D., SENIOR RESEARCH  
FELLOW, HERITAGE FOUNDATION**

Mr. COHEN. Madam Chairman, distinguished Member, thank you very much for conducting these important hearings. I want also to thank the staff for doing a great job organizing, and I also want to thank Madam Chairman's great leadership on Middle Eastern issues, especially today when Israel is under attack from Hezbollah.

In the last 5 years real and present danger to U.S. national security, especially Islamist terrorism and threats to energy supply, have affected United States policy in Central Asia. U.S. interests there can be summarized in three simple words: Security, energy and democracy.

In the enduring struggle to safeguard the West in general, America in particular, not only from terrorist threats emanating from Afghanistan but also from imports of illegal narcotics or reliance on unstable sources of hydrocarbons, it is essential that U.S. policymakers do not inflate the importance of one interest to the detriment of others.

What is needed in Central Asia is a policy that allows the United States to continue to diversify its energy supplies, station its military forces in close proximity to most immediate threats, Afghanistan, and create a lasting and deep impression as a successful, democratic free market and power in an area still undergoing development.

The aim of this testimony is to outline Central Asia's strategic importance, particularly in terms of energy security, and to assess how our energy issues fit into wider United States strategic interests in the region.

The hydrocarbon reserves are concentrated in the Caspian region. As such, a discussion of Central Asian hydrocarbon resources would be incomplete without including Azerbaijan, which has considerable oil and gas resources in its own right and is central to non-Russian energy transit from Central Asia to points west.

The bulk of Central Asian Caspian hydrocarbons are located in Kazakhstan, Azerbaijan, and to a lesser degree Uzbekistan with a lot of gas in Turkmenistan. Both Tajikistan and the Kyrgyz Republic have limited reserves of oil and gas, but in amounts that thus far have not warranted much attention from foreign investors.

Possible future oil pipeline projects include Central Asian Oil Pipeline, CAOP; Kazakhstan-China Pipeline that is underway, and the Governments of Turkmenistan, Afghanistan and Pakistan signed a memorandum of understanding to construct the Central Asia Oil Pipeline, which would bring Uzbek-Turkmen oil to Gwadar, Pakistan. However, this project has been delayed due to the continued instability in Afghanistan. The first stage of the Kazakhstan-China pipeline that connects the Kazakh oil fields of Aktobe to the Kazakh oil hub of Atyrau is already complete.

I go in greater detail in all these pipelines and fields in the bulk of my testimony which will be entered into the protocol.

The outlook for Western investment in Central Asia is mixed. Especially the gas sector, investment was low. The leaders of the biggest gas producing countries are not friendly to the United States and their investment climates can be characterized as abysmal.

The Central Asian national gas sector has seen very little outside investments until recently and Russia continues to benefit from the bulk of gas exports from Central Asia as it buys Central Asian gas at prices as low as one-quarter to one-third of market prices in Europe, then resells at market rates.

To put things in perspective, it must be noted that Caspian Sea production levels even in their peak will be much smaller than the OPEC, Organization of Petroleum Exporting Countries, combined output. Production levels are expected to reach 4 million barrels a day in 2015 compared to 45 million barrel a day for OPEC countries in that year. Clearly Central Asia is not the largest source of oil and gas nor its most successful.

Political conditions hinder market access. Russia dominates the natural gas sector, and with the exception of Azerbaijan and Kazakhstan, the countries in the region do not offer a sustainable investment climate.

Despite all these difficulties, investors and governments are rushing to lay claim to hydrocarbon reserves of Central Asia. One of the most attractive features of Central Asian oil and gas must be these are deposits yet to be developed. National Governments are reliant on foreign investors to provide capital to do so.

Geopolitical location is a keen concern as Central Asia continues to evolve as a highly important strategic area, especially for Russia, United States, China, Iran and India. Political instability in other major oil and gas production locations is very much in the news, the Middle East, Venezuela, where President Hugo Chavez just visited Belarus and is signing a \$1 billion arms agreement with Russia, including the sale of sophisticated Soho 30 fighter bombers and building of a Kalashnikov machine gun factory in Venezuela.

All these factors of instability are fueling the drive to claim a share of Central Asian resources. Last but not least, all these individuals' concerns are infused with a spirited balance of power and sphere of influence politics.

The role of the United States focusing on numerous factors that I mentioned before is also preventing the United States from being a hegemonistic power in the region. The more we are involved, the more Russia and China and Iran are resisting our presence there. Our presence is constricted by the unease with which the authoritarian governments of most Central Asian regimes are fighting us, but their undemocratic nature is of no consequence to Russia, China, Iran or even India.

Even if the U.S. has the capacity to limit the presence of other large powers in the region, to do so would be an error, just as it was a mistake for the United States to support an oil and steel embargo on Japan in the 1930s, triggering its southern expansion of the Pacific. The U.S. and other great powers share the goals of stability, economic development and preventive religious radicalization of terrorism.

The United States does not want to openly antagonize China, Russia or India over their involvement in Central Asia but is likely to derive benefits from regional cooperation with them in the region. Despite the unappealing nature of authoritarian regimes in the region, Chinese and Russian backing of this government for long term may allow a transition to less authoritarian regimes.

The political disintegration today of any of these countries would have serious consequences for the global community.

Furthermore, radicalism, heroin trafficking, organized crime are all serious problems in all Central Asia and the extent to which we can help fighting those will be our contribution to Central Asian stability.

Ms. ROS-LEHTINEN. Thank you, Dr. Cohen. If you could wrap it up.

Mr. EBEL. Thank you, Madam Chairman.

Ms. ROS-LEHTINEN. I didn't mean for you to end right there. Sorry. I just meant wrap it up. I was not pulling the plug. Sorry, Mr. Ebel.

Mr. COHEN. There is no question that the United States should stay engaged and persistent in Central Asia. We need to help in the resolution of interregional conflicts, support political and economic security and cooperation. To foster regional stability and economic interdependence we need to promote financial and economic development based on market principles, aid in development of communications, transportation, health and human services infrastructure. Whatever we can contribute to market-based development, to the rule of law, to transparency is going to be in our interests and the interests of international business and in the interests of the nations and peoples of Central Asia itself.

We need to encourage Central Asian Governments to work with us as well as with the EU and the Government of India to diversify away from current fossil fuel resources in the Middle East as well as away from Russian monopoly, especially in the gas area.

The diversification to China of the pipelines is not sufficient. We need to help the region to develop the third direction of transit and that is to the south, to involve Pakistan and India down the road.

We need to continue developing good relations with Azerbaijan and Kazakhstan and have to draw lessons from the failure of our policy to maintain military presence in Uzbekistan. We need to in case of—

Ms. ROS-LEHTINEN. Now we need to really wrap it up.

Mr. COHEN. In case of Turkmenistan we need to identify and support secular, moderate Islamic and democratic opposition parties, but must be opposed to any jihad extremism and committed to principles of democracy.

Thank you, Madam Chairman. And the rest of my testimony will be—

[The prepared statement of Mr. Cohen follows:]

Ariel Cohen, Ph.D., Senior Research Fellow  
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## **Introduction**

In the last five years, real and present dangers to U.S. national security, especially Islamist terrorism and threats to the energy supply, have affected U.S. policy in Central Asia. The region has a great potential, is strategically important, but it is land-locked, which complicates U.S. involvement there. The U.S. has varied and, at times, competing interests in Central Asia. This region, which includes the five post-Soviet states,<sup>2</sup> Afghanistan and the Caspian basin, plays an important part in the U.S. global strategy in view of its geographic location, taking into account its proximity to Russia, China, India, Pakistan, Iran and other key regional players, its ethno-religious composition, and its vast deposits of oil, gas, coal and uranium.

U.S. interests can be summarized in three simple words: security, energy, and democracy. In the enduring struggle to safeguard the West in general and America in particular, -- not only from terrorist threats emanating from Afghanistan, but also from imports of illegal narcotics, or over-reliance on unstable sources of hydrocarbons -- it is essential that US foreign policy makers not inflate the importance of one interest to the detriment of the others.

What is needed in Central Asia is a policy that allows the US to continue to diversify its energy supplies, station its military forces in close proximity to the most immediate threats, and create a lasting and deep impression as a successful democratic, free-market power in an area still undergoing development. The aim of this testimony is to outline Central Asia's strategic importance, particularly in terms of energy security, and to assess how energy issues fit into wider U.S. strategic interests in the region.

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<sup>2</sup> Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan.



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### Policy Overview

The hydrocarbon reserves of Central Asia are concentrated in the Caspian Region. As such, a discussion of Central Asian hydrocarbon resources would be incomplete without including Azerbaijan, which has considerable oil and gas resources in its own right, and is central to non-Russian energy transit from Central Asia to points west. The bulk of Central Asian/Caspian hydrocarbons is located in Kazakhstan, Azerbaijan, Uzbekistan, and Turkmenistan. Both Tajikistan and the Kyrgyz Republic have limited reserves of oil and gas, but in amounts that thus far have not warranted much attention from foreign investors.

Appendix 1, which shows proven and possible oil reserves by country, demonstrates that the region's largest oil deposits are located in Kazakhstan and Azerbaijan, as well as the three largest regional oil projects. These three are in the Tengiz and Karachaganak fields in Kazakhstan, and the Azeri, Chirag, and Gunashli (deep-water) fields in Azerbaijan.<sup>3</sup> Each of these projects includes Western oil majors as shareholders.

- Tengiz: TengizChevroil (50% Chevron Texaco, 25% Exxon Mobil, 20% Kazakh government)
- Karachaganak: Karachaganak Consortium (32.5% each Agip and British Gas, 20% Texaco, LUKoil 15%)
- Azeri-Chirag-Guneshli: Azerbaijan International Oil Company (operated by BP, other shareholders are Unocal, LUKoil, Statoil, ExxonMobil, TPAO, Devon Energy, Itochu, Delta Hess and SOCAR).<sup>4</sup>

There is the possibility of offshore Turkmen oil reserves in the Caspian Sea, but disputes over border delineation in the southern portion of the sea have held up exploration and development in the Turkmen and Iranian sectors.<sup>5</sup>

<sup>3</sup> Department of Energy, "Country Analysis Briefs: Caspian Sea," *Energy Information Administration*, Sept 2005, url.

<sup>4</sup> Tamam Bayatly, "BP Current Developments," *Azerbaijan International*, Spring 2002, (10.1), [http://www.azer.com/aiweb/categories/magazine/ai101\\_folder/101\\_articles/101\\_petroleum\\_bp.html](http://www.azer.com/aiweb/categories/magazine/ai101_folder/101_articles/101_petroleum_bp.html).

<sup>5</sup> Department of Energy, "Country Analysis Briefs: Caspian Sea," *Energy Information Administration*, Sept 2005, url.

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### **Oil Transit**

Existing oil pipelines in Central Asia include:

- The Baku-Tbilisi-Ceyhan pipeline (BTC), with a capacity of 1 million bbl/d, runs from the Azerbaijani coast of the Caspian Sea to the Mediterranean coast of Turkey. Its major shareholders form the consortium which includes British Petroleum (BP), SOCAR, Chevron, Statoil, Total, Eni, Itochu, ConocoPhillips, and ExxonMobil.
- The “Northern” (Baku-Novorossiysk) and “Western” (Baku-Supsa) Early Oil Pipelines, with capacities of 100,000 and 115,000 bbl/day, respectively. These begin on the Azerbaijani coast of the Caspian Sea and travel to the Russian port of Novorossiysk and the Georgian Black Sea port at Supsa.
- A newly signed barge route agreement between Kazakhstan and Azerbaijan to supply Kazakhstani oil to the Baku-Tbilisi-Ceyhan pipeline.
- Atyrau-Samara is Russian-owned, and extends from Atyrau, Kazakhstan, to Samara, Russia. Its current capacity is 300,000 bbl/day, but Russia has pledged to increase capacity to 500,000 bbl/day.
- The Caspian Pipeline Consortium (CPC) is owned and operated by the Russian, Kazakh, and Omani governments, and has a throughput capacity of 560,000 bbl/d. It connects Kazakh oil deposits to the Russian port of Novorossiysk.
- A pipeline from the Shymkent refinery in Kazakhstan to Chardzhou, Turkmenistan (via Uzbekistan),
- Oil swap agreement between Turkmenistan and Iran via barge.

Possible future oil pipeline projects include the Central Asia Oil Pipeline (CAOP) and the Kazakhstan-China pipeline, which is already underway. The governments of Turkmenistan, Afghanistan, and Pakistan signed a Memorandum of Understanding to

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<sup>5</sup> Department of Energy, “Country Analysis Briefs: Central Asia,” *Energy Information Administration*, Sept 2005, url

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construct the Central Asia Oil Pipeline, which would bring Uzbek and Turkmen oil to Gwadar, Pakistan. However, this project has been delayed due to the continued instability in Afghanistan. The first stage of the Kazakhstan-China pipeline, which connects the Kazakh oil fields of Aktobe to the Kazakh oil hub of Atyrau, is already complete. The second stage, which will run from Atasu (northwestern Kazakhstan) to Alashkanou (Xinjiang) will cost an estimated \$850 million, and have initial and eventual capacities of 200,000 bbl/d and 400,000 bbl/d, respectively.

Russia controls the majority of oil export routes from reserves in Central Asia and the Caspian. Nevertheless, prior and continuing efforts by Western oil majors, particularly the Baku-Tbilisi-Ceyhan pipeline, as well as inroads into the Central Asian oil sector made by India and China, have resulted in increasing non-Russian export routes and diversification of the customer base.

#### **Natural Gas**

The countries with the largest reserves of natural gas are Turkmenistan and Uzbekistan, although there are considerable amounts in Kazakhstan (particularly the Karachaganak field in Western Kazakhstan) and Azerbaijan (Shah Deniz). (See Appendix 2).

Even more than in the Central Asian oil sector, gas transit routes not controlled by Gazprom are scarce, limited to the as yet unfinished Baku-Tbilisi-Erzurum pipeline and Korpedzhe – Kurt-Kui, which is small and connects Turkmenistan to Iran. Future projects are hindered by heightened political risk and an unfriendly investment climate. Other than Korpedzhe – Kurt-Kui, all Turkmen and Uzbek natural gas exports are controlled by Gazprom, and almost all Turkmen gas travels to Russia via Uzbekistan. Turkmenistan also pipes gas to Ukraine via Russia.

Existing gas pipelines include:

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- The Central Asia Center Pipeline routes Turkmen gas to Russia, into Gazprom's system of gas pipelines. Its East and West Branches have an annual capacity of 3.53 trillion cubic feet, with plans to expand capacity by 2009.
- Karpezhe to Kurt-Kui is a joint project of the Turkmen and Iranian governments, bringing Turkmen gas to Iran. It is the first non-Russian gas pipeline from Turkmenistan, or in Central Asia, it has an annual capacity of close to 300 billion cubic feet (bcf).
- Tashkent-Bishkek-Almaty is Russian-owned, and brings Uzbek gas to southern Kazakhstan. It is Uzbekistan's major gas export pipeline, and is also used to deliver gas to Kyrgyzstan.

Possible future gas transit projects include the Trans-Afghan Pipeline (TAP) and the South Caucasus (Baku-Tbilisi-Erzerum, or BTE) Pipeline. TAP will go from Turkmenistan through Afghanistan and let out at Fazilka, a port on the Indian-Pakistani border. The governments of Turkmenistan, Afghanistan, and Pakistan have signed an Memorandum of Understanding (MOU) for construction of the pipeline, and it also has strong backing from India. However, instability in Afghanistan and Pakistan-based terror activities against India have delayed implementation of the project, which has a planned annual capacity of 1.1 bcf. BTE, or Baku-Tbilisi-Erzerum, will run parallel to the BTC oil pipeline from the Shah Deniz gas fields in Azerbaijan to Greece, then will presumably be linked to Nabucco, a planned gas pipeline to bring Central Asian and Caspian gas through Greece, Italy, and Austria. BTE's planned initial capacity is 1.5 bcf/yr, to be upped to 3 bcf/yr by 2007. Major shareholders include BP, Statoil, SOCAR, LukAgip, Nico (Iranian), and Total.

#### **Further Investment**

Western investments have made some inroads in Central Asian oil industry, but the same is not true of the gas sector. The leaders of the biggest gas-producing countries –

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Turkmenistan and Uzbekistan – are not friendly with the U.S., and their investment climates can be characterized as abysmal.

Overall, in most of Central Asia, local economies are characterized by excessive government intervention, corruption, weak corporate governance, insufficient legal frameworks, and incompetent, weak and corrupt court systems. Together, they amount to systemic failure to protect property rights. Furthermore, they are by and large lacking in transport infrastructure that is not controlled by Russia, which has refused to allow other firms access to its gas pipeline network. Azerbaijan and Kazakhstan are notable exceptions, and both investors in and consumers of Central Asian and Caspian oil and gas benefit from the increases in exploration, development, extraction, and production that have proceeded from increased foreign direct investment in the region.

The Central Asian natural gas sector has seen very little outside investment until recently. Russia continues to benefit from the bulk of gas exports from Central Asia as it buys Central Asian gas at prices as low as one-quarter to one-third of markets prices in Europe, and then resells gas at market rates. In 2003 Turkmenistan signed an agreement to sell almost all of its gas to Russia starting in 2009.<sup>6</sup> However, of late, China has expressed interest in Turkmen gas, and on April 3, 2006, the leaders of the two countries signed a deal whereby an export pipeline will be built from Turkmenistan to China, and China will buy 30 billion cubic meters (bcm) of Turkmen gas every year for thirty years, beginning in 2009.<sup>7</sup>

Although foreign firms have expressed an interest in Uzbekistan, its natural gas sector remains largely closed to all comers except for Russia. Uzbekneftegaz had a production-sharing agreement (PSA) with the British Firm Trinity Energy, but broke the deal in 2005. Since then, Uzbekistan has been working more closely with Gazprom, signing a

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<sup>6</sup> Vladimir Socor, "Central Asia Gas Update," *Eurasia Daily Monitor*, Feb 1, 2005, url.

<sup>7</sup> Daniel Klimm, "Central Asia: Turkmenistan-China Pipeline Project Has Far-Reaching Implications," *RFE/RL*, April 10, 2006, url.

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deal to provide Russia with up to 350 bcf annually, giving Gazprom access to gas fields in the Ustyurt region, and updating dilapidated gas pipelines.<sup>8</sup> In January 2006, Gazprom CEO Aleksei Miller signed a deal with Uzbek President Islam Karimov to transfer three of Uzbekistan's largest gas fields – Urga, Kuanysh, and Akcholak – to Gazprom, giving it a monopoly over the export of Uzbek gas. Some analysts suggest that Karimov is courting Russian favor in exchange for Russian assistance with regime security.<sup>9</sup>

Recent deals aside, Turkmenistan and Uzbekistan are not prime targets for most foreign investors. Neither Uzbekistan nor Turkmenistan has implemented economic reforms such as privatization yet, and both are abysmal in terms of transparency and rule of law. A U.S. Department of State warning to those seeking to do business in Turkmenistan states that “The government of Turkmenistan has a history of capricious and arbitrary expropriation of property of local businesses and individuals, including foreign investors...”<sup>10</sup> Furthermore, poor relations between Uzbekistan and the West in general, and the the U.S. in particular, preclude most opportunities for investment by Western firms.<sup>11</sup>

### **Investment Magnets**

On the other hand, U.S. involvement with Kazakhstan and Azerbaijan is an example of success: in both countries, Western investment has been not only allowed, but facilitated by local governments, and in both countries there has been a commensurate increase in per capita GDP and overall standards of living. Kazakhstan and Azerbaijan are now both economically competitive in energy sectors on an international level; seeing healthy levels of growth and foreign direct investment (FDI); have greater access to

<sup>8</sup> Energy Information Administration, “Country Analysis Briefs: Central Asia,” Sept 2005, url.

<sup>9</sup> “Business: Gazprom will see to stability of the Uzbek Regime,” Ferghana.ru, January 19, 2006, <http://enews.ferghana.ru/detail.php?id=392328559837.44.557.4847695>.

<sup>10</sup> “2005 Investment Climate Statement – Turkmenistan,” U.S. Department of State, <http://www.state.gov/e/eb/afd/2005/42192.htm>.

<sup>11</sup> Marat Yermukanov, “Kazakh-Uzbek Relations Show Signs of Improvement,” Eurasia Daily Monitor, March 22, 2006, [http://jamestown.org/edm/article.php?article\\_id=2370897](http://jamestown.org/edm/article.php?article_id=2370897).

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hydrocarbon export routes that do not go through/are not controlled by Russia; and although both countries have a long way to go to be considered mature democracies, their potential is undeniable, as can be seen with their attitudes towards democracy and the West compared to prevailing attitudes in Turkmenistan and Uzbekistan.

Both Kazakhstan and Azerbaijan have been quite successful in attracting foreign direct investment in their oil and gas sectors, aided by privatization and reform efforts, as well as openness to Western oil majors.<sup>12</sup> Azerbaijan's investment climate is actually efficient and healthy in the energy sector.<sup>13</sup> Kazakhstan has made marked improvements in its investment regime, but investment regulations, quotas on foreign employees, and domestic content requirements, can be seen as deterrents.<sup>14</sup> Both countries also have an effective counterweight against pressure from Russia and China, and both have used this counterweight to their economic advantage.

#### **The Allure of Central Asia**

To put things into perspective, it must be noted that the Caspian Sea's production levels, even at their peak, will be much smaller than OPEC countries' output. Production levels are expected to reach 4 million bbl/d in 2015, compared to 45 million bbl/d for the OPEC countries in that year.<sup>15</sup> Clearly, Central Asia is not the largest source of oil and gas, nor is it the most accessible – political conditions hinder market access. Russia dominates the natural gas sector, and with the exceptions of Azerbaijan and possibly Kazakhstan, the countries in the region do not offer a stable investment climate. China is steadily increasing its involvement in the energy sector, as demonstrated by purchase of PetroKazakhstan oil company last year, and signing of several significant pipeline agreements. Security issues, especially military bases and fighting Islamist terrorism and

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<sup>12</sup> Clinton R. Shiells, "FDI and the Investment Climate in the CIS Countries," International Monetary Fund, 2003, pp 9-10.

<sup>13</sup> Shiells "FDI and the investment Climate in the CIS Countries," p 17.

<sup>14</sup> Shiells, 18.

<sup>15</sup> Energy Information Administration, "Country Analysis Briefs: Caspian Sea," eia.doe.gov, Sept 2005, url.

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radicalism (Islamic Movement of Turkestan, Hizb'ut Tahrir, Akramiyya, etc ) are an important issue for all of these governments.

Despite all these difficulties, investors and governments are rushing to lay claim to the hydrocarbon resources of Central Asia. One of the most attractive features of Central Asian oil and gas must be that there are deposits which have yet to be developed, and the national governments are reliant on foreign investors to provide the capital to do so.

Geopolitical location is also a key concern, as Central Asia continues to evolve as a highly important strategic area, especially for the U.S., Russia, China, Iran, and India. Political instability in other major oil and gas producing locations – the Middle East, Venezuela, Nigeria – is also fueling the drive to claim a share of Central Asian resources. And last but not least, all of these individual concerns are infused with spirited balance of power/sphere of influence politics.

Russian access to Central Asian (specifically Turkmen) natural gas is key to its domination of the European natural gas market. At present, it seems that Gazprom's natural gas export obligations cannot be met by Russian production alone, and future gas obligations, including a deal to provide China with 80 bcm of gas annually, will also require that Russia have access to the bulk of Turkmenistan's and Uzbekistan's production. A recent study of the Russian gas industry gives the following annual projections: Russian gas production will be 665 bcm, domestic demand will be roughly 479 bcm, exports to the EU will be around 161 bcm, exports to the CSI are projected at 80 bcm, and exports to Asia at 24bcm. To meet its obligations, Russia will have to import 79 bcm from producers in Central Asia in order to meet its demands.<sup>16</sup> Current developments suggest that Russia will maintain its close trade ties with Kazakhstan, Turkmenistan, and Uzbekistan in the years to come; however, Turkmenistan has already begun increasing the price of its natural gas, and as export opportunities increase, not

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<sup>16</sup> Roman Kupchinsky, "Russia: Gas Export Plans Dependent on Central Asia," *RFE/RL*, March 28, 2006, url.



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only will Central Asian prices go up, but supply may be redirected elsewhere, especially if it can be sold at market prices.

#### **The U.S. Role and Policy in Central Asia: Energy and Beyond**

A number of factors – security, economic, geographic, historical, cultural, political – which cause the U.S. to be involved in the region, will also prevent the U.S. from being a hegemonic power in the region. U.S. involvement is particularly constricted by its unease with the authoritarian character of most current Central Asian regimes, whose undemocratic nature is of no consequence to Russia, China, Iran, or even India.

Even if the U.S. had the capacity to limit the presence of other large powers in the region, to do so would be an error, just as it was a mistake for the U.S. to support an oil and steel embargo on Japan in the 1930s, triggering its southern expansion in the Pacific.<sup>17</sup> The U.S. and other great powers share the goals of stability, economic development, and preventing religious radicalization and terrorism. The U.S. does not want to openly antagonize China, Russia, or India over their involvement in Central Asia, but rather is likely to derive benefits from regional cooperation with them in the region. Despite the unappealing nature of the authoritarian regimes in the region, Chinese and Russian backing of these governments contribute to their short-term stability – staving off political crises. A political disintegration in any of these countries would have serious consequences for the global community, because they are for the most part impoverished, dissatisfied, largely Muslim, and thus susceptible to recruitment by fundamentalist Islamic groups. Furthermore, heroin trafficking is a serious problem in all of Central Asia, particularly Afghanistan and Tajikistan, and the collapse of any of the states would allow for even more prolific smuggling in narcotics, people, and possibly even nuclear weapons components.

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<sup>17</sup> "Sino-Japanese War (1937-1945): - A Major Invasion of Eastern China by Japan," Japan-101 Information Resource, <http://www.japan-101.com/history/sino1.htm>.

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As a U.S. ally, a stable democracy, and a growing economic power, increasing Indian presence in the region may be beneficial for the U.S. India has an operational military base (Ayni) in Tajikistan, which is intended as part of an effort to contribute to stability in Afghanistan and to battle Islamist terrorism in Central Asia.<sup>18</sup> These are both shared goals of the U.S. Also, any efforts to increase export options for Central Asian oil and natural gas south will have a two-pronged effect: it will both help to break up the Russian natural gas transit monopoly and contribute to economic growth, stability, and improved relations between the pipeline transit countries, namely India, Pakistan, Afghanistan, and Iran. India can also serve as an example of a successful non-Western democracy in the region.

With China and Russia increasingly seeking to squeeze out the U.S. military presence in Central Asia, and with India picking up some of the slack on democracy development, battling terrorism, and increasing export options, it is important that the U.S. maintain and expand a multi-faceted presence in Central Asia. The benefits of U.S. involvement accrue to both sides: the U.S. can protect its security/military/geopolitical interests, its energy access, and promote democracy and civil society development in Central Asia. The developing nations of Eurasia would have access to the U.S. investment, security assistance, and global integration they desperately need. However, these interests, at least on the part of the U.S., at times conflict. Thus it is essential that they not be viewed on an individual basis, but as a basket of interests which must be evaluated as a whole.

#### **Challenges to U.S. Energy Interests**

A real challenge in promoting U.S. energy interests world wide, including in Central Asia, is the high level of corruption in the state-run energy sectors. A recent report by Global Witness on the Turkmen-Ukraine gas trade posed the following question of the EU, although it is also applicable to the U.S.: "Can they meet their energy needs without feeding corruption and undermining good governance in the countries that supply or

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<sup>18</sup> Stephen Blank, "India: The New Central Asian Player," *Eurasianet.org*, June 26, 2006, url.

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transport this energy?" This question could be applied to other regions as well, specifically the Middle East.

The answer to that question, both in the Middle East and in Central Asia, is, for the time being, no. It would be unwise to sacrifice U.S. energy and security interests due to intractability in dealing with regimes that do not share U.S. values. Perhaps a more relevant question for the present would be "How can the U.S. successfully balance its security, energy, and human rights priorities in such a way as to maximize U.S. interests?"

It is in U.S. interests, given its strategic and energy priorities, to stay engaged with the leaders of governments, with elites (including opposition parties and figures) and with ordinary people in Central Asia. The recent experience with President Islam Karimov of Uzbekistan that resulted in the loss of a strategic relationship with his country, include the Karshi-Khanabad air base, may have provided a valuable learning opportunity for U.S. policy makers. Intransigence on the issue of democracy development, which is not a fully appreciated or understood concept by the states of Central Asia, to the exclusion of other U.S. national interests and agendas, has not served the U.S. well in Uzbekistan and is resulting in an over-reliance on the Manas International Airport air base in Kyrgyzstan, which comes with a price tag close to \$100 million per year.

#### **Policy Goals**

By staying engaged and persistent, the U.S. may be able to make serious progress on achieving its objectives in Central Asia, which are:

- To aid in the resolution of intra-regional conflicts and support political, economic, and security cooperation in the interest of fostering regional stability and economic interdependence
- To promote financial and economic development based on market principles

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- To aid in the development of communications, transportation, health and human services infrastructure
- To promote and protect the interests of U.S. businesses and investments
- To promote independent, transparent and responsible government in each state
- To promote the protection of human rights, tolerance, and pluralism

#### **Policy Recommendations**

To achieve these goals, the U.S. State Department, Department of Energy, Department of Defense and other U.S. Government departments should pursue the following policies:

- Continue to encourage Central Asian governments, the governments of India, China, and Pakistan, and multi-national corporations to diversify away from the current fossil fuel sources, such as the Middle East, to mitigate risk, and to break the Russian energy transit monopoly by establishing new energy transit routes that head west and, in some cases, south. This can be achieved by constructing new pipelines from the region or through shipments of liquid natural gas (LNG) from terminals in the Black, Mediterranean, Baltic and Barents Seas, and the Indian Ocean.
- Develop closer ties to states with whom the U.S. has reasonably good relations, specifically Kazakhstan and Azerbaijan, by:
  - ✓ Assisting with economic and legislative reform in order to attract foreign investment; spur economic growth; and protect U.S. business interests
  - ✓ Promoting projects to build new pipelines that head from Central Asia to points west without entering Russian territory, to enhance the global energy market
  - ✓ Strengthening military-to-military and law enforcement relationships
  - ✓ Enhancing democratic and civil society institutions without appearing excessively partisan
- Ensure further improvement in relations with Kazakhstan, guaranteeing access to Kazakhstani land and air space, and to its ample reserves of oil and gas,

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- Encourage economic and legislative reforms in order to protect American geopolitical, economic, including energy, interests and investments there.
- Use sticks and carrots with those states whose leaders are not amenable to cooperation with the U.S., specifically Turkmenistan and Uzbekistan, including:
  - ✓ Identifying and supporting secular or moderate Islamic democratic opposition parties or figures (who necessarily must be opposed to wary of any jihadi or extremist sponsor states or organizations)
  - ✓ Examine the use of penalties, such as sanctions and travel bans. It is imperative to coordinate with the EU, Interpol, and Europol to close off travel to these leaders and their families.<sup>19</sup> Serious violations, such as money laundering; drug and arms trafficking and involvement in murder of political opposition should be investigated with an eye for international prosecution.
  - ✓ Engage, where necessary, in a public information campaign to discredit existing leaderships and expose their abuses
  - ✓ Guard against Islamist backlash

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<sup>19</sup> There are a few problems with this in the case of Turkmenistan. According to U.S. Ambassador to Turkmenistan Tracey Ann Jacobson, President Niyazov does not leave Turkmenistan for fear of what may happen to him outside his own borders. In addition, Turkmenistan engages in relatively little trade, has little U.S. FDI, and receives no loans from International Financial Institutions.

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**Appendix 1.**

**OIL**

The Caspian Sea Region contains proven oil reserves estimated to be between 17 and 44 billion barrels, comparable to Qatar on the low end and the United States on the high end.

<b>Reserves (Billion Barrels)</b>	<b>Country</b>	<b>Proven Oil Reserves<sup>1</sup></b>			<b>Possible<sup>2</sup></b>	<b>Total</b>
		<b>Low</b>	<b>High</b>	<b>Low</b>		
	Azerbaijan	7	7	32	39	
	Iran		0.1	15	15.1	
	Kazakhstan	9	40	92	101	
	Russia <sup>^</sup>		0.3	7	7.3	
	Turkmenistan	0.55	1.7	38	38.55	
	Uzbekistan	0.3	0.59	2	2.3	
	<b>Total Caspian Sea Region</b>	<b>17.2</b>	<b>49.7</b>	<b>186</b>	<b>203.2</b>	

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**Appendix 2.**

**GAS**

The Caspian Sea Region's proven natural gas reserves are estimated at 232 trillion cubic feet, comparable to Arabia.

<b>Reserves (Trillion Cubic Feet)</b>	<b>Country</b>	<b>Proven Reserves</b>	<b>Possible Reserves</b>	<b>Total</b>
	Azerbaijan	30	35	
	Iran	0	11	
	Kazakhstan	65	88	
	Russia <sup>^</sup>	N/A	N/A	
	Turkmenistan	71	159	
	Uzbekistan	66.2	35	
	<b>Total Caspian Sea Region</b>	<b>232</b>	<b>328</b>	

Ms. ROS-LEHTINEN. It sure will. Thank you.  
Mr. Ebel.

**STATEMENT OF MR. ROBERT EBEL, CHAIRMAN, ENERGY PROGRAM, CENTER FOR STRATEGIC AND INTERNATIONAL STUDIES**

Mr. EBEL. Thank you, Madam Chairman. I first traveled to Central Asia in 1969 as a member of a delegation whose charge it was to develop an assessment of the natural gas industry in that part of the world. The republics of Central Asia were then defined by yurts and camels and moved all their gas to Moscow. My visits since then have allowed me to keep up with the social, economic and political changes.

I would venture that when the Soviet Union broke up in December 1991 rare was the individual in Washington who could name the five now independent republics that make up Central Asia. In the intervening years international media changed all that because several of the countries possessed oil and natural gas in volumes that, initially at least, were presumed to offer a viable alternative to Middle East oil.

Kazakhstan and Turkmenistan are two of the five states bordering on the Caspian Sea, an inland body of water that caught the eye of the major international oil companies for several reasons. First, nothing is quite attractive as something which in the past has been denied or which is now available. Second, the Caspian producing potential is world class. Third, this potential could not be realized within an acceptable time frame without outside participation. Fourth, and perhaps most important for the foreign investor, the oil will not be developed to meet domestic requirements. Domestic requirements are comparatively small and are expected to remain that way. Most of the oil to be produced will be for the export market.

Over time more realistic assessments have set aside the assumption that Central Asian could substitute for Middle East oil. However, interest in Kazakhstan and Turkmenistan did not diminish but focused on the contribution that we might expect from these two countries to make the world supplies. The timing and scale of that anticipated contribution, particularly of oil, unfortunately, faced the unavoidable fact that Central Asia is landlocked. Indeed, doubly so, for the Caspian Sea must first be circumvented if access to ports of export are ultimately to be reached.

When these states looked north they saw Russia and Russian export pipelines were and still are unavailable to third parties. China stood to the east but at that time was a net exporter of oil. Iran lay to the south but was unavailable to American companies. Exports to the west remained the only viable option.

We the speakers have discussed the policy of the United States, and I won't repeat that, but why did we make this considerable effort enduring and successful? It all has to do with the power of oil. Just what is that power? I would describe it this way. Oil is high profile stuff, where fuel is much more than automobiles and airplanes. Oil fuels military power, national treasuries and international politics. Because of this it is no longer a commodity to be bought and sold within the confines of a traditional energy supply

and demand balance. Rather, it has become a determinant of well-being, of national security and international power for those who possess this vital resource, and the converse for those who do not.

These sentences describe the past, the current world oil situation, and the future.

We have noted Central Asia's past, but what about the future? Tengiz has been discussed, a pipeline from Tengiz has been mentioned, an export pipeline from western Kazakhstan to the Chinese border, the discovery of Kashagan, probably the largest oil discovery worldwide in the past quarter century. And on the basis of these two fields Kazakhstan might be exporting as much as 3 million barrels a day by 2015.

Do Turkmenistan and Uzbekistan matter? They do, but for differing reasons. Turkmenistan is profoundly isolated from the outside world as a rich natural gas resource base, or so it claims. It is selling gas to Russia and Ukraine and entertaining plans to sell to China, to Pakistan and to India. But could it meet all these commitments? Doubts have been raised. Potential buyers must be assured of reserves confirmation. Pipelines are not built unless and until an adequate reserve base has been independently confirmed and long-term sales contracts have been signed, assuring at least those banks having loaned construction funds will be repaid.

Uzbekistan is increasingly unstable and has turned away from the West and toward China and Russia. It is independent in terms of oil supply and exports large volumes of gas to Russia.

I would note that those volumes plus those imported from Turkmenistan allow Russia in the face of relatively stagnant domestic gas production to meet growing demand at home and in the West.

In conclusion, I would note that I tried to catch up on my reading in the summer, although energy security issues seem to have gotten in the way. But I would like to quote from one book I did find time to read:

“It would be sad to see how the magnet of oil draws great armies to the Caucasus; it will be fascinating to examine how oil companies mobilize their forces of diplomacy to fight their battles across green tables and behind the scenes. It should be enlightening to study how far the foreign policies of nations, in the matter of recognition, credits and so forth, are influenced by that universal lubricant and irritant, oil.”

The author of the book is Louis Fischer, the title of the book is *Oil Imperialism*, the date of publication, 1926. These words come close to capturing the sense of what is taking place today in that remote part of the world. We only need to have substitute Central Asia with the Caucasus. I thank you for your attention.

[The prepared statement of Mr. Ebel follows:]





Testimony before the House International Relations Committee  
Subcommittee on the Middle East and Central Asia

**Assessing Energy and Security  
Issues in Central Asia**

July 25, 2006

A Statement by

**Robert E. Ebel**  
**Senior Advisor, Energy Program**

My name is Robert E. Ebel and until very recently I chaired the energy program at the Center for Strategic and International Studies. I am now Senior Advisor to the Center. I welcome this opportunity to present my views on energy and security issues to this Subcommittee on the Middle East and Central Asia, focusing, as requested, on Central Asia.

I first traveled to Central Asia in 1969 as a member of a delegation whose charge it was to develop an assessment of the natural gas industry in that part of the world. The republics of Central Asia were then defined by yurts and camels, and directed all their gas to Moscow. My visits since then have allowed me to keep up with social, economic, and political changes.

I would venture that when the Soviet Union broke up in December 1991, rare was the individual in Washington who could name the five now independent republics that made up Central Asia. In the intervening years international media changed all that. Because several of these countries possessed oil—and natural gas—in volumes that initially at least were presumed to offer a viable alternative to Middle East oil.

Kazakhstan and Turkmenistan are two of the five states bordering on the Caspian Sea, an inland body of water that caught the eye of major international oil companies, for several reasons.

1. First, nothing is quite attractive as something which in the past has been denied but which is now available.
2. Second, the Caspian producing potential is world-class.
3. Third, this potential could not be realized within an acceptable time frame without outside participation.
4. Fourth, and perhaps most important for the foreign investor, the oil will not be developed to meet domestic requirements. Domestic requirements are comparatively small and are expected to remain that way. Most of the oil to be produced will be for the export market.

Over time more realistic assessments had set aside the presumption that Central Asian oil could substitute for Middle East oil. However, interest in Kazakhstan and Turkmenistan did not diminish but rather focused on the contributions we might expect these two countries to make to world supplies. The timing and scale of the anticipated contribution, particularly of oil, unfortunately faced the unavoidable fact that Central Asia is landlocked, indeed doubly so, for the Caspian Sea must first be circumvented if access to ports of export were ultimately to be reached.

When these states looked north, they saw Russia and Russian export pipelines were—and still are—unavailable to third parties. China stood to the east, but at that time was a net exporter of oil. Iran lay to the south, but was unavailable to American companies. Exports to the west remained the only viable option.

The policy of the United States, at least in large part, supports development of oil and natural gas and the construction of multiple export pipelines circumventing Russia. That support has been considerable, enduring, and successful. Why did we make the effort? It all has to do with the power of oil. Yes, oil powers our cars and trucks and fuels our airplanes, but there is more to it. Just what is that power?

I would describe it this way.

Oil is high profile stuff, for it fuels much more than automobiles and airplanes. Oil fuels military power, national treasuries, and international politics. Because of this, it is no longer a commodity to be bought and sold within the confines of traditional energy supply and demand balances. Rather, it has been transformed into a determinant of well-being, of national security and international power for those who possess this vital resource, and the converse for those who do not.

These sentences describe the past, the current worldwide situation, and the future.

We have noted Central Asia's past but what is the current situation? The U.S. looks favorably upon Kazakhstan, we sidestep all the political shortcomings of President Nazarbayev because he has something that the world covets -- oil. What has been accomplished?

- Western oil companies have been invited in to develop and produce the onshore Tengiz oil field, discovered in Soviet times.
- A pipeline has been built from Tengiz, across Russia, to the Black Sea export port of Novorossiisk. This pipeline lies outside Russian control.
- An oil export pipeline has been built from western Kazakhstan to the Chinese border. This line has a capacity of 400,000 barrels per day.
- The discovery of the Kashagan oil field in the Kazakh sector of the Caspian Sea, again by Western firms, has been described as the largest discovery worldwide in the past quarter-century.
- On the basis of these two fields, Kazakhstan by the year 2015 hopes to be exporting 3 million barrels per day. Equalling perhaps three percent of world oil supply, not pivotal by any means, but important to those importing countries always searching for diversity of supply.

Do Turkmenistan and Uzbekistan matter? They do, but for differing reasons.

Turkmenistan, profoundly isolated from the outside world, has a rich natural gas resource base, or so it claims. It is selling gas to Russia and Ukraine, and entertains plans to sell to China, to Pakistan and India. Could it meet all these commitments? Doubts have been raised and potential buyers must await

reserves confirmation. Pipelines are not built unless and until an adequate reserve base has been independently confirmed and long term sales contract have been signed, assuring at least that those banks having loaned construction funds will be repaid.

Uzbekistan is increasingly unstable and has turned away from the West and towards China and Russia. It is independent in terms of oil supply and exports large volumes of gas to Russia. I would note that these volumes—plus those imported from Turkmenistan—allow Russia, in the face of relatively stagnant domestic gas production, to meet growing demand at home and in the West.

I try to catch up on my reading during the summer, although energy security issues seem to have gotten in the way. But let me quote from one book I did find time to read.

“It will be sad to see how the magnet of oil draws great armies to the Caucasus; it will be fascinating to examine how oil companies mobilize their forces of diplomacy to fight their battles across green tables and behind the scenes...; it should be enlightening to study how far the foreign policies of nations, in the matter of recognition, of credits, etc. are influenced by that universal lubricant and irritant—oil...”

The author is Louis Fischer, the title of the book is **Oil Imperialism**. The date of publication—1926. Those words, written 80 years ago, by chance or by foresight come close to capturing the sense of what is taking place today in that remote part of the world. We need only substitute “Central Asia” for the “Caucasus.”

I thank you for your attention and I look forward to any questions you may have.

Ms. ROS-LEHTINEN. That is great. Thank you.

I just have two related questions for any who would like to comment, or all, and if you could comment on the Russian President's statement or suggestion regarding the launching of the SCO energy club.

Do you think that such an arrangement would likely do for natural gas what OPEC has done for oil; that is, control production and drive up prices. And related to developments at the SCO, please comment on the recent anti-American developments at the SCO and what should U.S. strategy be in countering these developments?

Dr. Cohen.

Mr. COHEN. Madam Chairman, these are two excellent questions. I am very glad you asked them. Because if Iran joins SCO or, even without that, if Iran and Russia get together to create what they call a gas OPEC, that will be a step in the wrong direction because they will be controlling together massive production capacity.

I do not remember off the top the top of my head after Russia, which is number one, which one is number two in terms of reserves. Either Qatar or Iran. It is Iran.

So if you think about a number one and number two producers of gas getting together, it is like Russia and Saudi Arabia getting together. That says it all.

In terms of Iran being part of SCO, I think also it is going to be geopolitically a step in a wrong direction, directly affecting American interests if you take Russia and China and Iran to the west, to the east, and to the south because it will be a step to creating a geopolitical bloc essentially aimed at the United States.

So we need to fight that. I floated an idea of United States exploring joining the SCO as an observer. So far there was Chinese resistance. There probably would be a Russian resistance. But we need to maintain a dialogue, we need to sort of signal to them that we are not there to affect their vital interests but we need to engage in dialogue, in collection of information.

Ms. ROS-LEHTINEN. Thank you. Dr. Blank.

Mr. BLANK. Let me try to broaden the frame on those very good questions. First of all, Mr. Putin has been calling for a gas cartel since 2002. This is just the latest iteration of that call, and as Dr. Cohen said, if he is able to bring Iran into this, it would create the kind of OPEC for gas.

But the immediate interest is also to dominate Central Asian gas and prevent Central Asian countries from exporting gas to other countries except on Russian terms. For example, there are now talks about pipelines from Uzbekistan and Kazakhstan to China with a branch from Turkmenistan, which would give those countries more independence in gas because they would have another customer other than Russia.

There are also talks about a pipeline through Iran to Afghanistan, Pakistan and India or, now with major gas discoveries in Afghanistan, Afghanistan, Pakistan, India pipelines, which would keep Iran out of the equation but might also injure Turkmenistan if they are not able to participate.

If the United States wants to prevent the formation of this closed bloc which would not only be Iran and Russia under optimum con-

ditions, from Moscow's point of view, but it would also be all of Central Asia, it needs to invigorate its policies in Central Asia to open up dialogue with all five, and I emphasize all five, of the Central Asian Governments on alternative pipelines and energy opportunities for them so that they are able to join with the United States, with other consumers like India and for that matter China, which certainly needs the energy, in a counter cartel, if you like, a counter association of consumers and producers if possible so that they would have more freedom of choice and the Russians would not be able to dominate the market and set the world price for natural gas.

Ms. ROS-LEHTINEN. Thank you. Mr. Ebel.

Mr. EBEL. I am not sure, I am not convinced that joining a gas cartel would be in the ultimate national interest of Russia. Several years ago when I was visiting in Moscow I was asked by a Russian official, he said we are considering joining OPEC, what would you recommend? I said why do you want to join an operation that tells you how much you can produce and how much you can export? Aren't you much better off where you are? Of course they never did join. So I have to wonder what the Russians would say to joining a cartel.

Ms. BARAN. I would like to build on what Dr. Blank and Eric Cohen said and bring in Turkey to the dynamics because Turkey is the key transit country for Central Asian gas going to Europe and it has been the source of the main sort of competition between the United States and Russia. What we do see actually is a de facto gas cartel already taking place with Russia working with Turkey and Iran to bring Iranian gas to Turkish markets and then together with Iranian and Russian gas sending it onwards to Europe, and it is basically to make sure that the United States will not have any chance to succeed in getting Central Asian gas directly and independently to European markets.

And here it is very important to see sort of where Turkey stands because while the SCO members, especially the ones that Ariel mentioned, have not been interested in having the United States as an observer, especially the Russian President has been eager to have Turkey join as an observer. And of course as we talk about SCO building as potentially an anti-NATO alliance, this can be very, very significant. So far the Turkish position is to stay away, but given the increased gas ties and energy ties with Russia and Iran, I will say this is something we need to watch.

Ms. ROS-LEHTINEN. Thank you so much. I want to thank all the panelists for joining us today and thank the audience as well, and as you had pointed out, the excellent staffers who put this together. Great testimony. Thank you very much. The Subcommittee is now adjourned.

[Whereupon, at 3:45 p.m., the Subcommittee was adjourned.]