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By M K Bhadrakumar

Speaking at a conference under the rubric "Summit on Energy Security" at West Lafayette, Indiana, this month, the powerful chairman of the US Senate Foreign Relations Committee, Richard Lugar, characterized Venezuela, Iran and Russia as "adversarial regimes" that were using energy supplies as "leverage" in foreign policy.

Lugar said: "We are used to thinking in terms of conventional warfare between nations, but energy is becoming a weapon of choice for those who possess it."

Senior Russian figures were quick to dismiss Lugar's admonition as "groundless Russophobia", but the US administration is already opening new battle fronts against Russia in the energy war.

Next week's meeting in Beijing on energy security involving the United States, China, Japan, India and South Korea is a dramatic manifestation of the new battle plans and war doctrines that Washington is conceptualizing. The conclave in Beijing, significantly, leaves out Western Europe.

Lugar had first publicly floated the idea of a formal tie-up by the US with China and India—at a major speech at the Brookings Institution in Washington in March when he proposed that an unusual coalition of interests over international energy issues among the three countries coincided with a "seminal moment in American history", quintessentially comparable to the late US president Richard Nixon "using his anti-communist credentials to open China".

Lugar underlined the crucial importance of a formal coordination of the US energy diplomacy with China and India at a juncture when 77% of the world's oil supply was controlled by "foreign governments"; when the US paid 17% more for its energy in 2005 than the year before; when energy costs accounted for a third of the US trade deficit; and when the US was bracing for a whopping $320 billion bill for its oil imports in the current year.

Beijing was quick to respond to Lugar's kite-flying. Writing in the People's Daily on April 11, an expert from China's Institute of Contemporary International Relations, Su Jingxiang, signaled that if only Washington were savvy enough to "revalue the tremendous market potential" in China and "abate unnecessary doubts toward China", closer cooperation between Beijing and Washington on international energy issues could be realized.

Su rendered some practical advice to Washington's policymakers in this connection. He questioned the efficacy of past US policies that involved "seizing resources" through military intervention and expansion aimed at "safeguarding the oil supply". He pointed out that gunboat diplomacy was no longer workable either in the Middle East or Latin America as it produced only terrorism and resistance. At the same time, Su acknowledged that growing dependence of energy imports "weakened the competitiveness and injured the economic security of the US."

So what should Washington do? Su advised that the US should "steer away to more cooperation" with other major oil consumers (such as China and India). "The new type of strategic partnership will consolidate the negotiating capacity of oil consumers in their talks with the oil producers, thus helping boost the economic boom and national security of the US," he wrote.

Su concluded by pointing out that China and the US, "being the most active forces in the world economy," possessed "great potential to join hands" in oil exploitation, price moderation, energy-efficiency technology, nuclear power and biomass energy.

Evidently, Wednesday's announcement of the creation of a political framework of "economic dialogue", backed at the highest level of leadership in Beijing and Washington, cannot be a coincidence. Nor, for that matter, can the International Monetary Fund's endorsement of the US-backed proposal on Tuesday to enhance China's "voting power" to 3.72% from 2.98%, sending an unmistakable signal to all corners of the international system that China is entering the heart of the world economy and that Washington is squarely backing this.

Announcing the "economic dialogue" with China on Wednesday, visiting US Treasury Secretary Henry Paulson said the dialogue "reflects the 21st-century global economy and redefines the economic relations between the United States and China." China was quick to respond, with Paulson's counterpart, Vice Premier Wu Yi, saying "It will also have a positive impact on the development of the world economy as well as on global stability and security."

Henry Paulson and Wu Yi in Beijing

Among the many compulsions working on the policy calculus of the administration of US President George W Bush in abruptly navigating such a huge arc in policy toward China, the forthcoming talks on energy security in Beijing should figure in the first circle of concerns. The fact is that the Bush administration, which has been long on words over international energy diplomacy and has been short on results, finds itself at the receiving end from effective, calibrated, purposeful Russian energy diplomacy in recent months.

A charitable explanation of the dismal failings of US energy diplomacy could be that the heavy preoccupations over the five-year, open-ended "war on terror" are inexorably exacting their toll on all-around US diplomacy. This was starkly evident last week. While Washington was marooned in the somber introspections of the September 11, 2001, anniversary of attacks on the US, Russia quietly posted more gains on the chessboard of great-power energy politics that hold far-reaching consequences for the geopolitics of the 21st century.

Russia on the move

The following extracts from the transcript of a meeting on September 14 between President Vladimir Putin and Alexei Miller, the chairman of Gazprom, Russia's leviathan energy conglomerate, vividly bring out the intellectual depth and breathtaking sweep of Russia's energy diplomacy.

Vladimir Putin (right)
and AlexeiMiller

Miller reported to Putin:

“As regards the energy-transportation routes to other markets, we have begun studying the possibility of building new gas-transportation capacity to deliver gas to the southern markets— Turkey, Greece and Italy in particular. This would also concern European countries such as Bulgaria, Romania, Hungary and Austria. We are looking at the possibility of building a new pipeline, Blue Stream 2, which would increase the gas-transportation capacity via the Black Sea.

Russian pipelines west

“Turkey is not a transit country at present for Russian gas. We deliver gas to Turkey, but we see that demand is rising in countries such as Greece and Italy. So we are working on projects to increase gas supplies to these three markets. We are currently engaged in talks with our Italian and Greek partners. We are also looking at the possibility of increasing gas supplies to Romania, Hungary and Bulgaria and we have established a project company to work on this option. This company will carry out the feasibility studies for this route during the course of this year. We are also examining the possibility of building a gas pipeline to deliver gas to Israel. This would be an undersea pipeline taking gas from Turkish territory to Israel. We expect the Israelis to make a final decision very soon on their possibilities of buying Russian gas.

Another big project Gazprom is currently working on is the Altai Project. We are currently carrying out the investment feasibility study and are holding commercial talks with our Chinese partners. We expect these talks to be completed by the end of the year, and then we will agree on the basic terms for gas supplies to China.”

Central to these grandiose Russian plans are two solid achievements of Russian energy diplomacy during September.

On September 4, Putin visited Athens and signed a joint declaration on energy cooperation with Greek Prime Minister Costas Karamanlis and Bulgarian President Georgy Parvanov, assigning priority to the creation of a new gas-transportation system and to finalize an intergovernmental agreement to support the pipeline project within the current year.

The proposed 280-kilometer pipeline stretches from the Bulgarian port of Burgas, on the Black Sea, to the Aegean port of Alexandroupolis in Greece. The US$1 billion project with an initial throughput capacity of 35 million tonnes annually and estimated to be commissioned by 2009 will allow Russia to export oil through the Black Sea, bypassing the Bosporus strait in Turkey.

Russian companies will hold the controlling stakes in the project, which has been the subject of protracted negotiations over several years involving disputes over transit tariffs, ownerships and construction contracts. In an interview with the Greek newspaper Eleftherotypia, Russian Energy Minister Viktor Khristenko said oil prices above $70 per barrel boosted "the financial attractiveness of the Burgas-Alexandroupolis project".

But that is only a part, a very small part in fact, of the story. At the epicenter of the project lies, from Moscow's perspective, the imperative to control the evacuation routes for the export of Kazakh oil. Kazakhstan plans to triple its oil exports during the coming decade. Kazakh oil mostly travels through Russia via the Caspian pipeline (CPC) to the Black Sea port of Novorossiysk. Astana is pressing Moscow to double the capacity of the CPC to 67 million tonnes per year.

The multibillion-dollar expansion of Kazakhstan's giant Tengiz oilfields by Chevron is proceeding at great speed, and production is expected to double by 2007. The oil from Tengiz is committed to the CPC, which means CPC should handle at least 45 million tonnes of oil. Besides, Kashagan, yet another giant field in Kazakhstan, is also expected to come on line shortly thereafter, which means the CPC should provide for an additional 12 million tonnes of Kazakh oil for export.

But the problem for Moscow is that Turkey has been clamping restrictions on the volume of oil that Russia could export from Novorossiysk through the Bosporus. Turkey has banned nighttime tanker traffic through the Bosporus. According to new restrictions, only one tanker can cross the strait at a time and tanker displacement has been severely restricted.

Large tankers lose up to $25,000 per day on demurrage alone. (A total of 9,500 oil tankers sailed through the straits in 2004; Black Sea ports exported 27.1 million tonnes of oil aboard 1,000 tankers in the first five months of the current year alone.)

Turkey, encouraged by the US, would rather have Kazakhstan export its growing oil surpluses through the US-backed BTC pipeline from Baku to Ceyhan, a Turkish Mediterranean port, which began operating this summer. Washington has also been putting pressure on Astana to use the BTC pipeline in preference to the CPC, which is under Russian control.

US Vice President Dick Cheney visited Astana in this connection in May. Cheney heavily argued for the BTC as a way to bypass Russian territory and to strengthen US influence in Central Asia. Washington also wanted Kazakhstan to collaborate on a new pipeline project from Kazakhstan's Kashagan field across the Caspian linking with Azerbaijan's Shah Deniz field and then heading west to Europe via Georgia - rather than north through Russia.

With rivalry building up over the Caspian pipeline, Russia has been under pressure to find an alternative route for Kazakh oil. For Greece and Bulgaria, too, picking the Russian proposal meant ignoring US entreaties for an alternative US-backed non-Russian pipeline system that was already on the drawing board—an Albania-Macedonia-Bulgaria route for southwestern Europe.

In April, while visiting Ankara and Athens, US Secretary of State Condoleezza Rice publicly warned Turkey and Greece about any collaboration with Russia that would facilitate Russia's tight grip on European energy supply. "It is quite clear that one of the [US] concerns is that there could be a monopoly of supply from one source only, from Russia," Rice said.

In short, the Burgas-Alexandroupolis project allows Russia to kill two birds with one shot. Apart from seeking to increase its delivery of oil supplies to the world market, it provides a viable alternative to the optional route of the BTC pipeline.

Masterstroke in Turkmenistan

But the battle over Burgas-Alexandroupolis is in its first round, though Russia is winning. In comparison, in the war over Central Asian gas the US has just raised the white flag without even waiting for Gazprom's attack. On September 5, in a sudden move that caught most Western observers of the energy scene by surprise, Gazprom settled a price dispute with Turkmenistan by acceding to terms set by Ashgabat. The dispute was quite acrimonious and at one point the Turkmen side had characterized the Russian negotiators as "dogs and agitated monkeys".

Briefly, Gazprom, after resisting for a period of some three months, abruptly took a U-turn and accepted the Turkmen demand to raise the gas sold to Russia from the prevailing tariff of $65 per thousand cubic meters (tcm) to $100/tcm with immediate effect. Prima facie, it appeared that Moscow was hard pressed to meet its own energy exports to Western Europe without the Turkmen supplies, and was caving in to "the pricing demands of Turkmenistan's fickle dictator Saparmurat Niyazov", as a Western commentary put it.

The commentator judged that "failure to reach an agreement with Turkmenistan could have led to a geopolitical disaster for Russia, as Moscow's energy strategy in Central Asia is in large measure dependent on its continued control of Turkmen gas supplies."

But it didn't take much time for the brilliance of the Russian move to sink in. By agreeing to the increased price, Moscow at a single stroke gained control of Turkmenistan's entire exportable surplus for the period up to 2009. Niyazov indicated that Russia would also enjoy preferential access to the untapped Yolotan gas fields and wanted Russia to quadruple the capacity of the existing gas pipeline running along the Caspian coast—important signals of Ashgabat's commitment to a partnership with Russia even beyond 2009.

Without doubt, the $16 billion deal with Turkmenistan is still eminently profitable for

Gazprom. The Wall Street Journal meticulously calculated for its readers that the terms of the deal with Turkmenistan translates into a natural-gas price of about $2.75 per million British thermal units (BTUs), whereas, "on New York futures markets, the price of natural gas stands at about $6 per million BTUs".

The unkindest cut of all, from the US point of view, was that Niyazov assured Moscow that Turkmenistan would not participate in any trans-Caspian gas-pipeline project. "Most importantly," he said, "we will want to supply gas to Russia. We are not interested in going to anyone else with Turkmen gas."

Gazprom struck the deal with Turkmenistan soon after the US assistant secretary of state for South and Central Asia, Steven Mann, visited Ashgabat to lobby for progress on the moribund Turkmenistan-Afghanistan-Pakistan-India (TAP) gas-pipeline project, which was supposed to be an integral part of the new grand US strategy of creating a "Greater Central Asia" with a unified energy structure for the countries of Central and South Asia. It was hoped to draw Central Asia into the US sphere of influence and pit Indian interests against Russian influence in the region.

But TAP and the United States' "Greater Central Asia" strategy are not the only casualties of Gazprom's Turkmen deal. The ramifications of the deal run in far-flung directions deep into the European continent. The deal arguably frustrates the US attempt to reduce the European Union's dependence on Russian energy supplies.

In January, US Deputy Secretary of State Matthew Bryza and Turkish Minister of Energy and Mineral Resources Hilmi Guler had undertaken parallel missions to Ashgabat for resuscitating a US proposal dating to 1997 for a trans-Caspian gas-pipeline project to supply Turkmen gas to Europe via Turkey - "to help Turkmenistan to export its huge energy resources to the international community," as Bryza put it.

The trans-Caspian pipeline was also part of the brief carried by Dick Cheney during his visit to Central Asia in May. As the head of the Jamestown Foundation think-tank put it, Cheney was "flexing our muscles a little bit ... planting a big American flag in Central Asia".

Cheney's visit itself was close on the heels of a regional tour of Central Asia in early May by the EU Energy Commissioner Andris Piebalgs. After the tour, Piebalgs gave an upbeat assessment that Central Asia could easily provide more than 10% of the EU's gas needs; that the EU was hopeful of making "closer contact" with Turkmenistan since Ashgabat's commitments with Gazprom didn't appear to be "binding"; that Brussels was "actively promoting" the US-backed trans-Caspian gas-pipeline project and was already financing feasibility studies for the project; that the trans-Caspian project was "good for Central Asia, because through it they could always find the best customer."

Gazprom's deal with Turkmenistan in effect kills whatever faint hopes there might have been in Washington and Brussels about reviving the trans-Caspian gas-pipeline idea. Meanwhile, Kazakhstan also has separately conveyed to the Bush administration that it has difficulties with the trans-Caspian pipeline project.

During a visit to Washington in July, after talks with US officials, Kazakh Foreign Minister Kasymzhomart Tokayev said, "Any project aimed at constructing a pipeline along the bottom of the Caspian Sea is a complex issue, because this requires the approval of the littoral states, to say the least. Kazakhstan advocates multilateral cooperation within the framework of the Caspian process. Surely we would like to have additional routes to transport oil and gas along the bottom of the

Caspian Sea, but we have to take into account the views of other countries, in particular that of Russia, which is our strategic partner and closest ally."

In short, Europe's dependence on gas supplies through Russian pipelines remains undiminished. And, more important, prospects of the EU lining up, even with strong US backing, any direct energy supplies from Central Asia remain dim for the foreseeable future. This leaves European countries with no option but to tie up directly with Russia long-term energy deals on a bilateral basis, which of course leaves no scope for Washington's mediation or supervision.

Equally, it cannot escape Moscow's attention that a panic demand for gas in Europe, thanks to recent apprehensions about gas shortages, is bound to send gas prices even higher. A Russian commentator wrote with satisfaction recently, "Today, Europe's major energy concerns are lining up to extend long-term contracts with Gazprom." The implications of all this are profound for the perpetuation of Washington's trans-Atlantic leadership.

For instance, disregarding US advice, Hungary, which depends on Russia for more than 80% of its gas requirements, is likely to go ahead with Gazprom's proposal to construct a second section of the Blue Stream Pipeline (which currently goes from Russia to Turkey) to continue to Hungary and then to southeastern Europe.

If that were to happen, yet another US-backed gas-pipeline project, the Nabucco project, from Turkey to Austria (and on to Bulgaria, Romania and Hungary), which was meant to diversify Europe's gas supplies and allow Central Asian gas to reach southeastern and eastern Europe, bypassing Russian territory, would be scuttled.

To be sure, Washington has good enough reason to be displeased with Hungary's socialist Prime Minister Ferenc Gyurcsany.

Paradoxically, from the EU's point of view, in this dismal scenario of even greater dependence on Russian energy supplies in the decade ahead, the only realistic solution lies in the Iranian vector of the European energy policy. Clearly, by 2015-20, the EU will face very serious gas shortages, even if Russia continues its gas supplies and even if it augments the supply level. Iran, thus, becomes a special case for Europe's gas security. (One can't lay a gas pipeline from Qatar to Europe except through the unstable territories of Iraq and Saudi Arabia.)

As for Iran, its first preference has been, and will remain, to sell its gas to Europe. A pipeline to Europe via Turkey or via the South Caucasus would make this dream come true. Ironically, Iran shares the EU's (and the United States') nervousness about Gazprom's strengthening in Central Asia. It doesn't need much ingenuity to fathom that Central Asia forms a sensitive front line between Iran and Gazprom. This has enormous strategic implications. The EU realizes it but cannot do much about exploiting it; the US, too, realizes it but will not do anything about it; and Russia realizes that the US and the EU are unlikely to do anything about it.

And this is undoubtedly a critical factor of divergence in the respective approaches of Russia, the EU and the US toward the Iran nuclear issue. Though Russia is certainly interested in a solution to the Iran crisis, Moscow will have reason to worry about an EU-Iran agreement that may lead to an improved energy dialogue between the two protagonists, as that would make Iran a rival to Russia on the European gas market. As for Tehran, it, too, perfectly well understands that its preference should be to settle with Western Europe rather than with Russia. That is why Tehran has opted for independence in its gas policy and has scrupulously kept Gazprom out of its Southern

Pars gas fields.

The only silver lining for the US on this dark horizon of clever, nimble-footed Russian maneuverings on the energy scene in the Caspian and Central Asia is that China is becoming more active in the region. The Chinese forays into the energy sector in Kazakhstan, Turkmenistan and Uzbekistan are beginning to threaten Gazprom's domination in Central Asia. First, the "China option" simply provides more room for the Central Asian countries to maneuver. Ashgabat, for instance, gained some valuable bargaining chips vis-a-vis Gazprom simply by having lined up a major gas deal with China in April.

According to the April deal, Turkmenistan is expected to supply China with 30 billion cubic meters of gas annually for a 30-year period from 2009. Putin's proposal to set up an "energy club" within the Shanghai Cooperation Organization at the SCO summit in June was no doubt prompted by worries over the oil and gas exporters within the SCO increasingly competing for promising markets, China in particular. Moscow would like the SCO's energy producers and consumers to coordinate their moves in joint energy production and transportation projects.

In conclusion, the Caspian Great Game is fraught with serious contradictions. On the one hand, Russia is arrayed against the US and the EU in controlling Central Asian energy flows to the West. But having thwarted the latest US-EU plans of sourcing Caspian energy bypassing Russia, for the time being at least, Russia and the EU have a commonality of interests in meeting the energy security of the European market. The US becomes the odd man out while European countries are busily negotiating their bilateral energy supplies from Russia.

For the EU, the viable alternative supply source of gas is Iran. But the policy of its US ally apropos containment of Iran precludes any near-term possibility for the EU to enter any form of expanded energy dialogue with Tehran. On the other hand, in keeping Iran out of the European market, Russia and the US would have a common interest at this juncture, though Washington ought to be aware that any realistic possibility of reducing its European allies' dependence on Russian energy supplies would depend on Iran being allowed into the European market.

Again, Russia and China are competing for Central Asia's energy reserves, while the Central Asian exporting countries are gaining space to maneuver between Russia and China for extracting better prices for their oil and gas. And all this is while all three protagonists are members of an ambitious forum of regional cooperation called the SCO.

To the extent that the US realizes that it has become the "underdog" with regard to Russia in the Caspian energy race, it is keen to coordinate with China and India in evolving a common platform of "energy consuming countries". But will Washington succeed in subsuming the economic nationalism of the Asian giants, when it miserably failed to marshal the EU? After all, India just led a bruising dissenting campaign against Washington's move to give increased voting rights to China in the International Monetary Fund.

Also, would China and India walk into the US game plan of pitting their energy-security concerns against the hardcore interests of the unsparing Russian energy supplier? The meeting of the energy-consuming countries in Beijing next week will be keenly watched by Moscow.

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