

Central Asian Energy Potential and Geopolitics of the Future

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Central Asia has the potential to fuel the most dramatic and unprecedented economic growth in the World economy. Concomitantly, the issue of access to and use of the region is increasingly becoming intertwined with issues of national security and power-politics. The region is gradually asserting its position as a provider of a strategic commodity. This assertion has led to the emergence of a new 'Power-game' or 'Great game', which links global oil security to oil-geo-politics in the region. This paper attempts to analyse the impact of Central Asian oil on global oil supplies, the oil prices and global oil security. The central argument in this paper is that the growing dependence of global power centres and regional powers on a volatile region (Central Asian/Caspian region) and the perception of scarcer energy resources in the United States (hereafter US) and other developed economies of the West have the potential to spark a conflict of interest in this region, unless these issues are resolved through markets and investments with mutual agreements and MoUs. It is now perceived that the development of Caspian oil and its eventual access to the World markets will have profound ramifications for the power balance in the Middle East, with direct stakes for Iran and Turkey, and Russia.

Energy Geo-politics

If the Caspian and the Central Asian region had not been land-locked or had free transit routes, the region would be one of the World's most favorable destinations for oil. It has been ascertained in recent days that the oil potential in the region is much more than what has been projected in the past. The region, therefore, has immense potential for raising the outputs of oil and gas at declining costs. The prospects for profits being large, issues like exploration and development of oil fields, extraction of oil and its transportation assume lot of importance these days.

The fact that the region holds huge oil reserves in countries where government are in need of revenues, investment and trade cannot be ignored. The international oil industry, apparently, has a favourable bargaining position in the wake of such developments. Oil and gas development has the potential to enable the new republics to move on the path to economic prosperity, as well as, political stability and independence. Indeed, the essential economic assets of Azerbaijan, Kazakhstan, Turkmenistan and Uzbekistan are their oil and gas reserves.

The political risks involved in developing the oil and gas resources of the Caspian region and Central Asian region and in bringing the oil and gas to the market are enormous. The risks involved should be analyzed from at least three angles: (1) the problems related to transportation; (2) risks regarding the involvement of powers-that-be; and (3) potential instabilities of the regimes ruling the region. These three dimensions are inter-related. The transportation problem invites interference from neighbouring States, for both economic and political reasons. The search for solutions inevitably leads to involvement of the powers-that-be, for example, the potential instability of the regimes in countries like Azerbaijan, Kazakhstan, Turkmenistan and Uzbekistan makes them seek allies outside the region. The internal politics of the new States of the Caspian region and Central Asian region also affect the powers-that-be in the region, especially the U.S. and Russia, besides Iran and Turkey. These interlocking of interests and at one level and often divergence of approaches at another, among the powers make the region perhaps the World's most complex environment for the oil industry.

The difficult outlets to World markets compromise the value of the assets, the region possesses. The land-locked position of the countries mentioned above severely limits the choice of markets. In principle, the region's oil and gas could be exported by pipelines to the expanding markets in China, India and Pakistan, but the capital costs involved would be extremely high, and some transit routes, for example, through Afghanistan, could mean disruptions due to political strifes. An alternative transit route therefore, could be of immense economic value. From Iranian ports, for example, the oil could be shipped to the World markets. This could reinforce and strengthen Iran's position, both in the World oil market and in the political context of the Middle East (Oystein Noreng, 2002).

As has been pointed out earlier, the potential economic gains and the strategic importance of the Caspian and Central Asian region have attracted the attention of the outside powers to the region. Indeed, the 'Great game' of the nineteenth century between Russia and the United Kingdom, over the control of Central Asian oil markets, seems to be re-appearing at the turn of the twentieth century. This time, however, the U.S. has seemingly replaced the United Kingdom and it appears to be Russia's chief contender, with Iran and Turkey performing secondary roles. These four external powers have similar and competing interests, that is, access to, and control of the region's oil and gas supplies. But it also has to be understood that the means at their disposal are not equal. The U.S. has a disadvantage because of its geographical remoteness and needs a partner for transiting oil. Russia and Iran, on the other hand, have an advantage of proximity, adjacent markets, and easy transit access. Turkey again, is at a disadvantage because of the costly and potentially vulnerable transit routes. Armenia, a traditional ally of Russia and Iran, is strategically, in the most important position as it represents a potential threat to both Azerbaijan and Turkish oil interests. So far, the U.S. has chosen Turkey as a partner, but this is insufficient, as Russia or Iran, or an (possible) alliance of the two, could upset any Turkish transit route

investment in new pipeline systems. Turkey may further suffer from insufficient outlets and free flow of oil and gas. Such a situation will greatly enhance the economic risks for the oil investors.

Iran is a new but important player in the 'Great game'. The role played by Iran is crucial as it is emerging as an independent actor, seeking economic and political control over trade and transit for the oil and gas in the region. In this game, Turkey apparently has an ambition to exercise economic and political control of the region, but with more limited means than either Iran or Russia. The U.S. is a newcomer to the region and an outsider. It too, is seeking economic and political control as well as control over oil and gas. In this new version of the 'Great game', there are essentially two distinct rivalries coming up: the U.S. versus Russia for control of the oil and gas, and Turkey versus Iran for the transit routes (T.V. Paul & Norrin Ripsman, 2004).

Out of these rivalries emerge new partnerships as well. The U.S. for instance has promised to assist Turkey economically by sharing transit revenues and eventually helping Israel secure oil supplies from a nearby Turkish Port. In this respect, the U.S. oil companies in the region, for instance, Chevron and Unocal are also important political actors, playing an increasingly important role in the region. The problem for the U.S., however, is that the partners chosen for the oil transit route, Georgia and Turkey, may be in a weak position to deliver.

Among the second-rank external actors, Iran has got little attention. Iran's interests are, briefly, to get the Caspian and Central Asian oil to the Gulf and establish close political and economic ties with the region. Among other things, Iran has a desperate need for foreign exchange and would benefit from oil and gas transit fees. Secondly, with such transit, Iran would be in a better position to develop trade with the region. Further, Central Asia could eventually become an important market for Iranian manufactured goods. The combination of oil and gas transit and trade could thus establish Iran as a regional power in Central Asia. Moreover, as a provider of transit route from Central Asia to Iranian Gulf ports, Iran could strengthen its position in the Gulf, essentially, in relation to Saudi Arabia, and potentially also, in relation to Iraq. Iran can thus emerge as a Central Asian power which could reinforce Iran's position vis-à-vis its Gulf neighbours.

Iran has the added advantage of favourable transit deals and trade. By choosing an Iranian outlet as opposed to the Georgia-Turkey route or any easterly route to China, India or Pakistan, Azerbaijani and the Central Asian oil exporters could cut down the cost of transit. This fact greatly enhances Iran's position. Turkmenistan, evidently, realized this when it signed the deal on the gas pipeline through Iran. For Azerbaijan and Central Asian region, Iran represents an outlet that is most secure from Russian interference and pressure. With both Azerbaijan and Turkmenistan having a common border with Iran, Turkmenistan could eventually transit Kazakh and Uzbek oil and gas to Iran. Iran's final trump card could be its closer diplomatic relations with Russia. Iran

and Russia have together supported Armenia against Azerbaijan. They also have their influence on Turkmenistan. Iran and Russia also have a common interest in restricting the influence of extra-regional powers. Therefore, if they act in their common interests they could prevent an alliance of the Turkic speaking countries of the region, supported by Turkey.

Turkey's interests are, briefly, political and economic ties with the Central Asian region, as well as, collection of huge profits from transit revenues and access to oil and gas. A major pre-occupation for Turkey is the reduction of dependence upon Arab-Middle-Eastern oil. This is the reason why Turkey, apparently, buys any quantity of oil delivered to the Georgian port of Batumi. Turkey's exponentially rising energy needs also mean that the country is a large and expanding market for gas from Central Asia. Turkey's means are less, and are, therefore, incumbent on favourable transit routes, trade and the support of the US. As already pointed out, the transit routes through Georgia and Turkey are both, costly and vulnerable compared to an outlet through Iran.

The proposed pipeline from Georgia through eastern-Turkey to the Mediterranean suffers from inherent problems. It not only has to traverse difficult mountainous territory, but also passes through the Kurdish area which has been in a state of insurrection for many years. The Kurdish guerrilla fighters have attacked pipelines carrying oil from Iraq on several occasions, even though the damage, so far, has been marginal. The new version of the 'Power game' over Central Asia is likely to go on for years, possibly for decades, until a balance of power emerges that can secure oil and gas investment as well as transit routes. Should the US- backed route from Azerbaijan through Georgia and Turkey prove to be an inadequate solution, because of high costs and the political risks involved, the US, will face a difficult choice and may have to find out some way of cultivating Iran or Russia for the transport of oil from this region.

By accepting a transit route through Iran, US could not only recognise Iran as a major power in international oil politics in the Gulf and in Central Asia, but also renounce its ambition to get the Azeri and Central Asian crude to the Mediterranean. The position of the Gulf in the World oil market would be reinforced with the supply and price risk being strengthened by flow of oil and gas through Iran. It would no doubt strengthen the Iranian position. In the Caspian region, if one were to employ Game theory, the traditional behavior of any player is generally expected to be rational in the face of opponents. Here, 'rational behavior' means assuming that each participant or player has a set of well-defined and mutually consistent objectives, the actual policies are chosen in accordance with these objectives without any mistake (John C Harsanyi, 1969). At the geo-political level, it has to be understood that the struggle for influence and investment in the Caspian region and Central Asian region does not have to be a zero-sum- game. Indeed, any apparent victory for the US and the West would be more durable should Russia and eventually, Iran, are accepted as partners rather than competitors vying for influence.

Already by 1999, Russia had scored an important victory by establishing the new oil pipeline from Kazakhstan to Novorossiysk in the Black Sea region. More recently, a new oil pipeline from Ukraine to Poland has further strengthened Russia's position. Combining its own volumes and those of the Caspian and Central Asian region makes Russia a leading oil power in the World, exceeding even Saudi Arabia in terms of the volume. Russia is already the World's leading producer and exporter of natural gas. Even if the costs of extraction and particularly, transportation, are higher in Russia than in Saudi Arabia, the Russian economy is somewhat less dependent on oil revenues.

There is already a school of thought emerging in US that it is in the US's interests to see that Russia emerges as a leading oil exporter, preferably competing with OPEC over market shares. From this perspective, it would be in the interest of the US to give priority to good oil relations with Russia and to promote pipeline projects that compete with Russian interests. Russia's emergence as a leading oil exporter may enhance oil market instability. Even if Russia, the Caspian region and Central Asian region should export larger volumes of oil, Saudi Arabia, the other Gulf States, and eventually Iraq have the resource base to significantly raise volumes at lower costs.

Energy Future

The US Department of Energy expects fossil fuels to remain the dominant source of energy for the foreseeable future. In fact, the EIA (Energy Information Administration, US), forecasts that the proportion of fossil fuels in the global energy mix will actually rise from 85.5 percent in 2001 to 87 percent by 2025. At the same time, the share of nuclear and other sources, including renewables, is being predicted to fall from 14.5 percent to 13 percent (OPEC Bulletin, March 2005). In addition, there are also vast resources of 'non-conventional' oil, some 7.0 trillion barrels initially in place, according to various estimates. Although it is uncertain what proportion of those resources will be ultimately recovered if advanced technology could lead to a ten percent recovery rate, on an average, another 700 billion barrels of oil could become available. Though, 80 percent of these non-conventional resources are found in Canada, the US and Venezuela, at the moment two-thirds of the World's proven reserves are situated in the Middle East. Similarly, a significant share of the yet-to-be discovered conventional oil is expected to be located in the region.

Although oil continues to dominate the global energy scene— still accounting for around 37 percent of the World's primary consumption— its position of primary consumption, has eroded considerably since the early 1970s. One of the principal beneficiaries of the decline in oil's dominance has been natural gas, which is likely to posit a continuous challenge to oil in the global energy market, at least in the foreseeable future. Between 1980 and 2003, the annual World demand for natural gas increased, on an average, by three and a half times the percentage growth rate of oil consumption, and more than twice that of total primary energy. In fact, demand for natural gas during that period increased by an average annual rate of around 2.8

percent, compared to some 0.8 percent for oil, and nearly 1.2 percent for total World consumption of primary energy. In 2003, the international demand for natural gas reached a record of 2,332 million tons of oil equivalent, representing some 23.9 percent of World primary energy demand (OPEC Bulletin January 2005).

U.S. Oil Policy

Many commentators have argued that oil plays an important, even central, role in U.S. foreign policy (Simon Bromley, 2005). One major outcome is that the U.S., for the first time, has major military bases in the Central Asian region. These help to position the U.S. corporate interests favorably in the current 'Great game'. The Bush administration also exploited the new phase of the 'War on Terror' to expand its overwhelming military advantages over the rest of the world, and thereby to secure other methods of global dominance. High officials clarified government thinking when Prince Abdullah of Saudi Arabia visited the U.S. in April 2003 to urge the administration to pay more attention to the reaction in the Arab-world to its strong support for Israeli terror and repression. He was told, in effect, that the US did not care (Noam Chomsky, 2003).

In pursuit of this aim, the US can promote the interests of its own oil companies. A comparative advantage, relative to both its allies in Europe and Japan, and its potential rivals in Russia and China in the military and diplomatic exercise of geo-political leverage vis-à-vis other States is more than apparent. Current US-policy may be read as ensuring that China, India and others fall under the same umbrella. According to this line of argument the 'War on Terror' and the wars against Afghanistan and Iraq are, in reality, part of a global strategy to assert and embed US dominance in the international system. It is partly in response to the growing competition with other regions of the World, especially in the light of the future challenge posed by China and the ever-increasing importance of Middle Eastern oil. In this context, preventing the emergence of a peer competitor, that is China and gaining a strangle hold over the life-blood of the world economy; that is the control over Gulf oil are important for the US. To substantiate this, the US Navy oil expert during the Second World War, Roger R. Sharp, said:

'Imports of foreign petroleum relate to national security and preparedness in several respects. By supplementing the domestic supply in peacetime, domestic reserves are conserved for an emergency. We also need to maintain imports at a level, which will protect US oil company's foreign concession agreements. For unless a minimum production in such foreign countries is preserved, there is a danger that concession agreements may be cancelled' (Business Week, 1970).

The vast majority of oil exports from Canada, Mexico and South and Central America, nearly half of Europe's exports cross the Atlantic (nearly three-quarters if Canada's imports are included) and nearly two-fifth of West Africa's exports go to the US.

Europe, which also accounts for about one-quarter of total World consumption and imports, gets over four-fifths of Russian exports and over two-thirds of North African exports. Finally, nearly two-thirds of Middle Eastern exports and roughly one-third of (the much smaller) West African exports go to the Asia-Pacific region, which also accounts for a little over one-quarter of total World consumption, but nearly two-fifths of world imports. The US' own production was equivalent to 37 percent of its consumption. Europe's and Eurasia's own production was 86 percent of consumption (largely on account of Russia's export to Europe), and the Asia-Pacific region's production was 35 percent of consumption (Simon Bromley).

However, it is being predicted that oil imports will continue to shift away from the US key allies in Europe and Japan towards the Asia-Pacific, especially to countries such as China and India. According to some estimates, by around 2010, total spending in absolute dollar terms in China will probably be increasing faster than in America, and this is already having marked effect on the oil markets. The Gulf producers alone could be supplying 54-67 percent of World exports by 2020. This long term dependence of the rest of the World on OPEC and the Middle East's oil is important because firstly, the oil market does not work like a normal market and secondly, because of the political and geo-political instability of the Middle East. Thus, while OPEC accounted for 77 percent of world reserves and the Middle East for 63 percent in 2003, their shares of world output were only 40 percent and 30 percent respectively. Conversely, the US accounted for 9.2 percent of world output in 2003, on the basis of a mere 2.7 percent of the total reserves, and Russia accounted for 11.4 percent of total output on the basis of 6 percent of World reserves (Simon Bromley).

The situation was further compounded by the OPEC related events of the two oil shocks of 1973-74 and 1979 and the Iranian Revolution in 1979. Two decades of unrelenting crisis followed the 1973-74 price rise; the temporary Arab embargo in response to the 1973 Arab-Israeli war; the post-OPEC nationalization of oil production decisions in the key Middle East and especially Gulf states; the communist accession to power in Afghanistan; the subsequent Soviet invasion; the resistance of the Mujahidin; the Iranian Revolution; followed very quickly by major increases in the prices of oil and the outbreak of the Iran-Iraq war of 1980-88; the Israeli invasion of Lebanon in 1982; the decisive Iranian counter-attacks against Iraq; Iraq's invasion of Kuwait in 1990; and finally, the subsequent US-led War against Iraq of 1991.

However, despite these many setbacks over the years the US has been able to fashion a new form of influence based on an increasingly close alliance with Saudi Arabia and the Gulf States. The key elements of the new form of influence were as follows. In the first place, while US oil imports including those from the Middle East were rising, the US was much less dependent on Middle East oil than Western Europe and Japan. The Soviet position was increasingly precarious, both, in the politics and geo-politics of the region as a whole, and in relation to the region's oil; and large developing countries such as China and India, were not yet significantly involved in a

competitive search for energy resources. The security of supplies from the Gulf has been a long-standing source of concern for US geo-politics in the Middle East. After the fall of the Soviet Union and the collapse of the communist block, a new set of security concerns emerged around the pipeline politics of Central Asia.

The Russian monopolistic control and the prevention of Iranian influence in the Gulf were has been potential some other sources of concern for the US. For these reasons the US, from the second Clinton administration onwards, opposed a proposal to route Kazakhstan's resources through the Russian port of Novorossiysk on the Black Sea, as well as a project aimed at linking Turkmenistan, Pakistan and Afghanistan. Instead, the US has successfully persuaded Azerbaijan, Georgia, Kazakhstan, Turkey and Uzbekistan to support its preferred option of a Baku-Tbilisi-Ceyhan (BTC) pipeline running from Azerbaijan through Georgia to Turkey. This was so despite the involvement of US oil companies such as Chevron and Unocal, respectively in these proposals and despite the fact that the companies concerned reckoned these proposals to be better commercial prospects than the BTC option.

Iran as an Issue

Iran in the Seventh century put a tragic end to Iran's glorious pre-Islamic civilization. Iran is the only non-Arab nation of the Persian Gulf region that has been considered a peripheral minority in the Arab world. Such a classification of Iran was reinforced in the 1950s, when the Egyptian leader Gamal Abdel Nasser increased anti-Persian rhetoric in the Arab world by using the term 'Arabian Gulf'. Such a terminological reference had the potential of increasing anti-Arab emotions among the Iranians. The fact that Iran chose to follow the Shi'i branch of Islam, while most of her Arab neighbours were predominantly Sunni, has also had a dividing effect on the region's countries. President Khatami emphasized this very issue, i.e., the objective of the Islamic World to create a modern civilizational bloc that would be 'even better than our past' if we have the fairness and capability of utilizing the positive scientific, technical and social achievements of Western civilization. He concluded that with 'awareness, effort, and solidarity we are capable of changing our destiny'. To achieve this goal, President Khatami put forward the concept of 'dialogue among civilizations'. Since the 1971 withdrawal of British forces from the Persian Gulf. Iran, Iraq and Saudi Arabia have all had ambition to play a hegemonic role in the region (Bijan Khajehpour Khoei, 2003).

Central Asia and Trans-Caucasia have changed Iran's geo-politics to a significant extent. Whatever the reasons behind Iran's new chapter in foreign relations, it is clear that geo-politics, especially, the fact that Iran is now the connecting element between the Persian Gulf and the Central Asia, will play a role in shaping common interests among the Persian Gulf States, thus affecting oil and gas development and economic growth. With regard to oil and gas, from an Iranian perspective, the Arab countries in the Southern Persian Gulf could be considered either competitors or partners.

Conclusion

There are three primary centers of active energy development in the Central Asia region: Azerbaijan oil fields, Kazakhstan's Tengiz oil fields, and Turkmenistan's natural gas fields. Iran could emerge as a fourth center and could develop and expand its explorative capabilities in the Caspian Sea tracts. Russia's commanding military position in the North Caucasian (NCMD) and Volga regions and the existing Russian pipeline system also give Russia important advantages in competing for the right to become the primary export route for new Caspian oil and gas. Turkey, Russia's main rival for the transportation business, has offered a different route through Kurdish regions of eastern Turkey, but Ankara would have to resolve its Kurdish problems in order to convince the oil companies that this route would be secure.

Today, as Iran and her Arab neighbours are working toward a genuine rapprochement, it would be a grave mistake to sweep the existing perceptions and misperceptions under the carpet and believe that the goodwill of a number of governments will resolve all issues. Iran is yet to formulate a clearly defined strategy to capitalize on the advantages that its unique location offers to the world's two most important energy deposits centres – the Persian Gulf and the Caspian/Central Asian region. Russia on the other hand, has great influence over the Muslim republics of the former Soviet Union. Russia's economic support, military presence, and sway with the bureaucracies and political establishments of these republics together serve as formidable obstacle to other powers seeking influence among these republics. This goes for Iran, and for the US, too, which seeks influence in the region through Turkey. In other words, development without security is impossible today.

The new version of the 'Great-game' over Central Asia is likely to go on for years, possibly for decades, until a balance of power emerges that can secure oil and gas investment as well as transit routes. Therefore, the question is whether the US backed route from Azerbaijan through Georgia and Turkey prove to be an inadequate solution, because of high costs and political risks of disruption. The US as Russia and Iran main antagonist in this game will face a difficult choice, whether to favour Iran or Russia. By accepting a stronger Russian stake and eventually, the transit route through Russia to control Western Europe, the US could achieve its objective of diverting the Azeri and Central Asian Crude from the Gulf. This would, however, also strengthen Russia's position in the World energy markets and imply at least a tacit acceptance of the return of Russia's position. Furthermore, Russia's position would be further strengthened by the combined control of the Caspian and Siberian oil resources. To sum up, for oil supplies and prices, the US could face a more resourceful and more self-confident Russia.

In terms of oil politics, and more generally, too, the forward deployment of military power to guarantee the general openness of international markets to the mutual benefit

of all leading capitalist states remains at the core of US hegemony. An attempt to break with this pattern to carve out protected spaces for the US economy and firms against other 'national' or 'regional' economies would undercut American leadership. This is not to undermine and deny the role of military power in oil geo-politics. However, potential conflicts can only be resolved by sustainable expansion of capital markets, investments and gains, and by the diversification of energy transport routes and promotion of alternative energy development and use across the region. The use of force is detrimental to economic growth and will be causative factor for more political instability and conflict in the region.

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