SECURITY OF THE CENTRAL ASIAN ENERGY SYSTEM: INSTITUTIONAL VERSUS STATE INTERESTS

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KEY POINTS

• The Central Asian Energy System (CAES) represents a unique case in which energy security, provided by a highly authoritative supra-national management system—later replaced by cooperative relationships based solely on trust—now faces serious challenges, despite the fact that several regional energy governing mechanisms within the CIS, the EaEU and the SCO were put in place to deal with insecurity of the unified system.

• There are three closely interlinked pillars of energy cooperation in Central Asia: (a) energy security; (b) export of energy resources; and, (c) water-energy nexus. None of the newly established multilateral institutions succeeded to develop a mechanism, which could effectively balance among all three pillars. As a result, the export of energy resources to the external markets is being prioritized over stability of energy supplies within Central Asia.

• These institutions failed to establish a particular type of relationship among member states in which sacrificing some of their political and economic interests would still be better than non-compliance with the terms of agreements prioritizing security of the CAES. Asymmetrical power balance among actors is negatively affecting the capability of these institutions to simultaneously promote the energy interests of all. Major powers’ interests within these organizations often prevail over institutional interests.
• The EaEU and the CIS are clearly dominated by Russia, whereas in the SCO power is more dispersed between Russia and China. To promote their state interests major powers use these organizations to foster bilateral relations. Signing bilateral agreements secures political, economic and energy interests of individual state actors, but it does not necessarily address regional level energy security challenges.

• Short-term oriented, state-centric and hydrocarbons/hydropower focused energy policies jeopardize the long-term security of the CAES. Due to lack of transparency and accountability, Central Asian elites can afford prioritizing economic gains, including personal benefits, and political revenues over greater energy security in the region.
INTRODUCTION

The CAES, a complex network of pipelines, electric power grids and energy/power producing facilities, was designed irrespective of national borders and turned the region’s energy sectors into highly interdependent entities of the system. The resource sharing mechanism ensured security of the CAES—a condition in which all states enjoyed reliable and stable energy supplies simultaneously. The security of the CAES was ensured through intra-regional cooperation regulated by supranational administrative bodies. Over the past decade, however, Central Asian governments, without yet establishing self-sufficient national energy systems, have been pursuing energy policies, which stress self-reliance and self-control. As a result, intra-Central Asian energy trade was compromised thus affecting the short- and medium-term availability of gas and thermal electricity to upstream and hydroelectricity supplies to downstream countries.

The policy brief explores potential collective benefits of, and major challenges for newly established regional energy governing mechanisms to, improving security of the CAES within such institutions as (a) the Eurasian Economic Union (EaEU), (b) the Shanghai Cooperation Organization (SCO), and (c) the Commonwealth of Independent States (CIS). The purpose of the policy brief is to examine whether these institutions possess powerful instruments to encourage/force member states to ensure stability and reliability of energy supplies within the region (institutional interests) even by sacrificing some of their political, economic or other gains (state interests).

Security of the CAES: State versus Institutional Interests

The resource-sharing mechanism that provided stability of energy supplies in Central Asia was quite simple: the upstream countries of Kyrgyzstan and Tajikistan ensured a continuous flow of water and a certain amount of electricity during the summer to the downstream countries of Kazakhstan, Turkmenistan, and Uzbeki-
stan, which channeled thermal power, gas, and light oil products to them in return. Designed to operate within a unified energy system, the Central Asian energy sectors were controlled by Moscow and regulated, during and right after the disintegration of the Soviet Union, from Tashkent. Over the first two decades of the independence of Central Asian states, the system has been operated on the basis of three closely interlinked pillars, which could become mutually exclusive, if managed inappropriately:

(a) Energy security prioritizes Central Asian countries’ availability and affordability of sufficient supplies of energy for the foreseeable future.

(b) Energy export aims at ensuring energy demand (through either long-term contracts or diversification of energy export routes) to generate revenues from selling energy to external markets.

(c) Water-energy nexus, a legacy of the Soviet Unified Energy System of Central Asia, based on resource-sharing mechanism that ensures a stable supply of water for irrigation purposes in exchange for energy resources.

In the 1990s, parallel operation of energy sectors within the framework of the resource-sharing mechanism under the condition of mutual trust ensured the security of the CAES. However, new geopolitical and economic interests of individual states—(a) the monetization of the energy trade (oil products, gas and electricity) while preserving water sharing interactions, which enriches downstream states and turns vulnerable their upstream counterparts; (b) an attempt to generate extra revenues in hard currency by increasing energy export capacity to external markets at the expense of highly subsidized domestic and unreliable intra-Central Asian consumption (energy insecurity for the region); (c) the shift from water to energy operation mode of the hydro-power sector, which has led to a tension between governments over the disruption of stable water release—began to strain the mechanism.

The CAES is a framework/complex system within which various
state actors interact and affect each other’s energy security. The system entails balancing among the energy interests of all. Reaching consensus is difficult, but necessary if the end goal is to make sure that everyone is enjoying energy security. State actors, interested in the region’s energy resources, in an attempt to reach such consensus established several regional energy governing mechanisms within the CIS, the EaEU and the SCO.

### THE COMMONWEALTH OF INDEPENDENT STATES

Founded in 1991, the CIS as a mechanism was designed to sustain intergovernmental relations among former Soviet Union republics in almost all areas of interaction, including the energy sector. The CIS has established a comprehensive energy sector governance apparatus, which encompasses: the Intergovernmental Council for Oil and Gas; the Electric Power Council of the CIS; the Intergovernmental Council on cooperation in the spheres of chemicals and petro-chemicals; the CIS member states’ Committee on Using Nuclear Power for Peaceful Purposes.¹

The CIS has also developed the most comprehensive package of interstate agreements regulating the electric power sector in the former Soviet republics, including the Central Asian countries: coordination of interstate relations in the power sector (1992), parallel operation of power systems (1998), transit of electricity (2000), mutual assistance in case of accidents at power stations (2002), cooperation in the field of energy efficiency and conversation (2002), effective use of resources to ensure stable operation of the power systems (2004), formation of the common energy market (2005), etc.² On November 20, 2009, the CIS member states even adopted the concept for energy sector cooperation,

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² The list of agreements is retrieved from the official website of the Commonwealth of Independent States Executive Committee: http://www.cis.minsk.by/index.php.
which is absent in most regional institutions in Central Asia.\textsuperscript{3}

The CIS does not possess an effective enforcement mechanism and is considered a loose association of states. Consequently, it proved quite challenging to turn non-binding recommendation-type agreements into documents forcing the states to comply with them. With almost no success in strengthening regional energy cooperation, the CIS has been ascribing some bilateral cooperation initiatives to its merits: memorandum between “Rosatom” and “Kazatomprom” on the construction of a nuclear plant in Kazakhstan; agreement between Kyrgyzstan and the Russian company “Inter RAO UES” on the construction of Kambarata HPPs and further exploitation of the Upper Naryn cascade HPPs; and many other projects.\textsuperscript{4}

It might be challenging to promote regional cooperation throughout the CIS space when not all energy sectors are properly connected to each other. However, even within the sub-systems the CIS fails to encourage greater energy cooperation. For instance, the Central Asian electric power system (CAPS) operates independent of other CIS member states. A number of intergovernmental arrangements within the CIS were designed to sustain cooperative dynamics in the CAPS. Nonetheless, the CAPS is undergoing disintegration process. Turkmenistan left the CAPS in 2003. Uzbekistan’s withdrawal in 2009 left the electric power sector of Tajikistan in complete isolation. The CIS’s attempts to address the water-energy nexus challenges, which have led to the breakdown of the CAPS, are being unsuccessful so far.

Underfinancing was rated as one of the main reasons for the lack of regional projects to ensure security of the CAES. Every member state brings to the table of negotiations what concerns it most. During Tajikistan’s CIS chairpersonship in 2011, for instance, the

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government emphasized the need for realization of first priority projects such as establishing common energy space, restoring parallel operation of the countries’ electric power systems and development of a single mechanism of electricity transit across the territories of the CIS member states. With a limited budget, the CIS could not support these investment projects.

Despite the fact that the CIS has developed a comprehensive conceptual framework for the promotion of regional energy projects, it simply lacks the capability to encourage/force Central Asian states to engage in greater energy cooperation. At the same time, however, 20 years of activity within the CIS was a good experience for other integration processes in the region such as the Eurasian Economic Community (EurAsEC), the Custom Union (CU) and the EaEU to strengthen their activity.

THE EURASIAN ECONOMIC UNION

The EaEU was launched on January 1, 2015 according to the agreement signed by the leaders of Armenia, Belarus, Kazakhstan and Russia. Kyrgyzstan joined the Union in May 2015. Tajikistan is another candidate. The EaEU is the final stage of an economic integration process, which started back in 2000. As a successor of the EurAsEC and the CU the EaEU inherited a mechanism designed to regulate a wide range of intergovernmental relations, including in the energy sector.

The primary objective of the EaEU’s activity in the energy sector,

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as highlighted in the energy policy, adopted by the Energy Policy Council in 2003, is to (a) prioritize joint activity oriented towards the rational use of energy resources, and (b) form complementary fuel-energy complexes/common energy markets of the Union member states based on increasing the efficiency of energy systems, development of transit potential and the creation of favorable conditions to increase the supply of energy resources. ⁷

The Energy Policy Council, Electricity and Atomic Energy Policy Department, Oil and Gas Policy Department, Advisory Committee for Electricity, Advisory Committee for Oil and Gas are agencies responsible for coordination of the Union member states’ energy sectors, including regulating the planned common energy markets. ⁸ However, Russia the largest member of the Union in pursuit of its economic and political interests is compromising the above-mentioned institutional energy interests of the EaÉU.

Having positioned itself as a supporter of economic integration, Russia confronts the formation of common energy (electric power, natural gas and oil) markets, which would result in the loss of monopoly control over the movement of strategically important resources within the territory of the Union and to external markets. ⁹

The Union member states differently perceive energy resources depending on whether they hold the status of importing or exporting country. Importers perceive energy resources as a market commodity similar to other products. They want to receive them at the lowest price possible and then further dispose on their own accord. Exporters, on the other hand, consider energy as a strategic commodity and would not refrain from using this strategically important resource to gain economic, political and security lever-

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Importers strongly support the formation of common energy markets, which would eliminate customs tariffs for the imported energy products. Out of 140 products of the group 27 (mineral and energy resources) the most traded ones, including natural gas in a gasified form, crude oil and oil products and electricity are exempt from Union level regulations.\textsuperscript{10} As a result, even though to some extent barriers preventing free movement of energy and mineral resources have been eliminated, Russia’s state interests prevent the establishment of the EaEU common energy markets. Armenia, Belarus, Kazakhstan and Kyrgyzstan are supporters of the liberalization of energy trade. Armenia is highly dependent on imports of Russian gas, oil and uranium. Kyrgyzstan is counting on Russia to ensure stable gas and electric power supplies. Belarus used to benefit a lot from importing Russian crude oil and natural gas, refining and further re-exporting final products to the European markets. Belarus produced 1.7 million tons of petroleum and gas condensate and refined 21.7 million tons of these same products from Russian resources in 2012.\textsuperscript{11} Kazakhstan imports more energy than exports within the Union, which places it within the category of importers. In January-March 2013, the volume of Kazakhstan’s crude oil and gas condensate imported by Russia amounted 17 692.8 tons (8 207.1 thousand dollars), while Kazakhstan imported these same Russian products almost 100 times more - 1 977 205.7 tons (769 268.6 thousand dollars).\textsuperscript{12}

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\item \textsuperscript{10} Ibid., 143 and 147.
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As a major exporter of energy, Russia strongly opposes liberalization of energy trade within the Union. One could argue that an economic loss forces Russia to confront customs tariffs removal for those particular items. But the fact that the Union member states already receive energy resources on preferential basis from Russia implies that it is not only the financial loss but also a political leverage that Russia is not ready to give up. Among many other reasons, the Russian government often applies preferential pricing policy in the energy trade with the Union member states in return for political loyalty. Not everyone is happy though about delays in establishing common energy markets. The President of Belarus, Alexander Lukashenko once highlighted that “We bought the product, processed and then sold it—the gain is ours. We are told that this is a specific product and thus we’ll do it this [another] way… and Russia suggested taking it to the level of bilateral agreements.”  

According to the Eurasian Economic Commission the concept of establishing common energy markets will be adopted in 2016 and the programme will be developed by 2018. It is also expected that the common electricity market of the EaEU will be formed by 2019 and oil and gas market only in 2025. Even though the Russian government applies preferential energy pricing policy towards members of the Union, in the absence of an effective multilateral mechanism designed to ensure free movement of energy resources most of the EaEU member states will remain vulnerable. Taking into account the economic recession that the country is currently experiencing, there should be a very good reason for Russia, such as to keep the Union afloat, to let the common energy markets of the EaEU be formed.


The SCO was officially established in 2001 with full membership of China, Kazakhstan, Kyrgyzstan, Russia, Tajikistan and Uzbekistan. Having started as a security organization, its activity soon extended to economic cooperation as well. Energy as a strategic commodity had immediately drawn the attention of state actors. However, the SCO has so far failed to balance the strategic interests of China over the region’s energy resources and security of the CAES.

Currently, energy projects are implemented within the framework of the SCO economic cooperation. The only specialized agency that the SCO member states have been counting on to promote energy cooperation is the Energy Club. A policy initiative to establish the SCO Energy Club was officially announced in 2007. Six years later in December 2013, the SCO member states finally signed a memorandum on formally establishing the SCO Energy Club. Nursultan Nazarbaev highlighted that Kazakhstan strongly supports the idea to create the SCO Energy Club when he said that: “We think that the mechanism of Ministries of Energy meetings…must be organized within the framework of the SCO Energy Club, which from our point of view, would become one of the main elements of (Kazakhstan’s) Asian Energy Strategy.”

While the EaEU and the CIS are dominated by Russia, in the SCO power is more dispersed between Russia and China with rapidly

rising influence of the latter. Using the SCO platform these two major powers avoid direct competition for the region’s energy resources and attempt to secure transit of Turkmen gas the largest Central Asian exporter of gas to Russia and China through the territories of other Central Asian states.\textsuperscript{18} However, moving energy out of the region in large quantities, with limited production level, threatens the availability of sufficient and affordable energy supplies for the population and the economic needs of the Central Asian countries.

A particular type of relationships among state actors within the SCO, which prioritizes bilateral negotiations over six-sided talks, creates an environment where institutional interests can be easily jeopardized. Construction of Line-D of the Central Asia-China gas pipeline, in which China financed the entire project by signing agreements separately with each country, is a good example.\textsuperscript{19} State actors’ desire to keep the bilateral format of interaction is not a problem, unless some actors do not support such format due to the asymmetry in power balance. As it currently stands, the main objective of the Club is to form recommendations to the SCO member states on how to behave in the dynamically changing regional energy markets and to ensure stability of the energy demand/supply balance. The SCO Energy Club does not possess an effective enforcement mechanism thus making weaker states more vulnerable to the influence by the organization’s more powerful members.

Apparently, the SCO is not capable of securing a type of relationship in which everyone’s energy security interests are met simultaneously. The problem, however, does not lie only with Chinese political and economic leverage over Central Asian states. Central Asian governments themselves are interested in selling energy in external markets to obtain revenues in hard currencies, as the


contribution of their highly subsidized energy markets to the budget is limited. Central Asian energy policies as they stand right now can be characterized as short-term oriented, state-centric, and hydrocarbons/hydropower focused. The Central Asian elites, having retained control over energy production and transportation industries, try to take maximum benefits out of them while remaining in power. The Central Asian elites and their political clients collect rents and extract private benefits from mismanaging their energy sectors. Thus, they agree on the terms, which may not seem serving their countries’ energy security interests.

CONCLUSIONS/RECOMMENDATIONS

The policy brief highlights that several regional institutions dealing with a range of issues, including energy security, may not be as effective as a single mechanism that is specifically designed to ensure the security of sufficiency and the sustainability of energy supplies. The analysis has shown that multilateral institutions governing the energy sectors (CIS, EaEU and SCO) failed to effectively replace one hierarchical supra-national Soviet management system to ensure security of the CAES. In this regard, it is recommended to establish either a department within existing institutions or an organization specifically focusing on energy security.

Asymmetrical power balance among key actors negatively affects the capability of these institutions to act as actors with their own agenda simultaneously promoting energy interests of all. Neither the Russia dominated CIS and EaEU, nor the China dominated SCO possesses an effective enforcement mechanism to balance the trade-offs between interests of greater powers and weaker states. Thus, it is important to have an institution not just specifically designed to promote greater energy security, but with specific focus on the Central Asian countries Central Asian Energy Security Organization/Department.
Since regional state actors might be financially incapable and often unwilling to equally contribute to the formation of such an institution, Central Asian states themselves would probably refrain even from making moves in this direction. The analysis shows that external state actors have their own interests over the region’s resources, which do not necessarily imply promotion of the security of the CAES. In this sense, it is recommended that Central Asian governments seek financial and technical assistance in implementing regional-level energy projects from such multilateral programmes as the Central Asian Regional Economic Cooperation. Attracting foreign investors through public-private partnership initiatives within the programme might be a good alternative to extensive dependence on external state actors such as China or Russia and would imply shifting from bilateral to multilateral arrangements in the energy sector.

Central Asian decision-makers often fail to reach consensus over water-energy balance and take coordinated actions to respond to energy security challenges, because they prioritize different aspects of cooperation (energy supply security, increasing export capacity, water and energy modes of HPPs) in their short-term oriented energy policies. Thus, it is recommended to promote a more active dialogue among experts directly advising decision makers, so that the former could reach such consensus and pass it along to the latter, within the following research institutions:

- Kazakhstan Institute for Strategic Studies under the president of Kazakhstan;
- Center for Economic Research, Institute for Strategic and Regional Studies under the President of Uzbekistan;
- National Institute for Strategic Studies of Kyrgyzstan;
- Center for Strategic Studies under the President of Tajikistan; and
- National Institute for Strategic Planning and Economic Development of Turkmenistan.


Customs Union and Single Economic Space. The Volume of Import Supplies of the Republic of Kazakhstan from States – Members of the CU and Single Economic Space for January-March 2013. Moscow: Customs Union and Single Economic Space,


