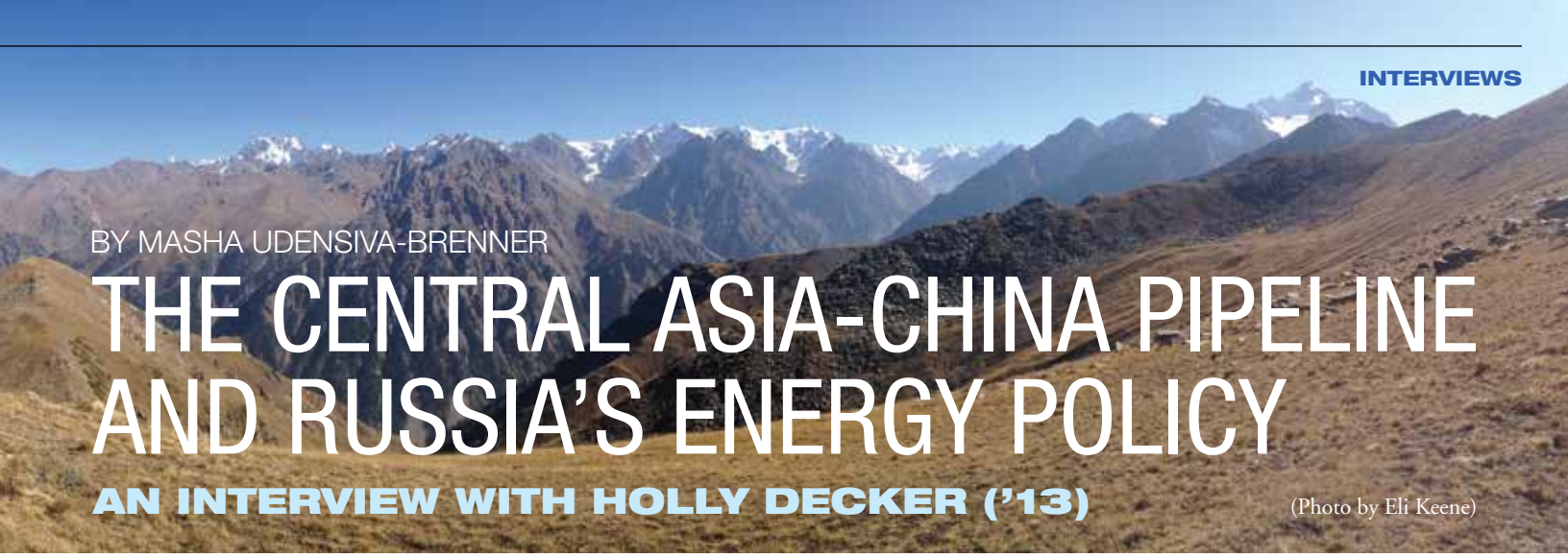

BY MASHA UDENSIVA-BRENNER

# THE CENTRAL ASIA-CHINA PIPELINE AND RUSSIA'S ENERGY POLICY

## AN INTERVIEW WITH HOLLY DECKER ('13)

(Photo by Eli Keene)

Holly Decker, the recipient of the newly instituted annual Director's Prize for Dedication and Service to the Harriman Institute, is a native of Fort Meyers, Florida. She became fascinated with Russia during the seventh grade, when her social studies teacher noticed her "fleeting interest" in the subject and encouraged it. Decker soon fell in love with Russian history, which sparked her desire to learn the language and study the politics. Her curiosity continued throughout high school, but it was not until the end of the third year of her undergraduate career at the University of Florida, where she majored in Russian and political science, belonged to the Russian Club, and spent a semester studying abroad in St. Petersburg, that she attended a lecture about the energy geopolitics of the Caspian region and discovered her true passion—the geopolitics of oil and gas in the post-Soviet space. "That's what compelled me to pursue a degree at the Harriman Institute," she explained.

Decker anticipated that studying at Columbia University would "open doors," yet she was surprised by just how much faculty attention she received. "Maybe because I went to a larger university as an undergraduate, I expected professors to be a bit more hands off, but they were extremely invested in the success of their students and really pushed for it," she said.

She is particularly grateful to Professor Jenik Radon, her thesis adviser, who allowed her to present her research on a panel at the Seventh Annual Colloquium of the Eurasian Pipelines—Road to Peace, Development and Interdependencies? "Suddenly, I got to sit up there as the expert. This absolutely baffled me," she recalls. "It also gave me a good opportunity to get feedback from experts in the field." She considers the experience the highlight of her graduate career.

After graduation, Decker embarked on an internship at the Center for the National Interest and then got a job at the American Petroleum Institute, where she is coordinating a series of proficiency exams for petroleum inspectors. Recently, she published a piece on Russian energy strategy in the face of the "shale revolution" in *The National Interest* online. Her dream is to eventually work in diplomacy with a focus on Eurasian energy.

Decker and I spoke by phone about her thesis on Russia and the Central Asia-China Pipeline.

**Masha Udensiva-Brenner:** Can you tell us about Russia's role in the Eurasian gas market before and after the Central Asia-China Pipeline?

**Holly Decker:** When the Soviet Union collapsed, all gas pipelines from Central Asia ran north to Russia. This was functional under the Soviet Union because the central government was able to redistribute the gas as needed. But suddenly, the USSR was divided into independent countries, yet Russia was still the main recipient of the gas, and for a time, oil. This became a problem.

The Baku-Tbilisi-Ceyhan pipeline (BTC), a 1,099-mile-long crude oil pipeline from the Azeri-Chirag-Guneshli oil field in the Caspian Sea to the Mediterranean Sea, started pumping oil in May 2005 and broke Russia's oil pipeline monopoly. But gas remained a major issue, and unlike petroleum, which can be transported relatively easily by train or boat, gas is primarily transported via pipeline. Given the location of Central Asia, it would be very difficult to get gas across the Caspian and into the pipeline system that goes out from Azerbaijan. As a result, Russia, which was transporting natural gas from Central Asia through the Central Asia-Center pipeline system, remained the primary transit state for Caspian natural gas. This was a very powerful position, because transit states can designate the amount of gas transported from producers to consumers and the cost. They also have the power to disrupt gas flow and raise transit fees for political and economic gains.

Russia had tight control and tried to disrupt pipelines that looked like they could threaten its monopoly, without which Central Asian and Caspian countries could become competitors



From left to right: Holly Decker; Decker flanked by her professors Alexander Cooley, Jenik Radon, Jonathan A. Chanis, and Natasha Udensiva; with her mother, Dr. Sally Cushnie, and Rebecca Dalton ('13).

for consumer markets. This was the case with the Trans-Caspian Pipeline between Turkmenistan and Azerbaijan, proposed in 1996. Russia attacked the legality of that pipeline on the basis that ownership of the Caspian seafloor was unresolved. It also questioned the project's environmental impact, a highly suspect concern given Russia's abysmal track record with environmental protection and natural resource transportation. The pipeline was shelved in 2001 but then reconsidered in 2006; it continues to be under consideration.

The biggest project, of course, was the Nabucco Pipeline—if built, it would have been the largest and longest pipeline to carry gas from Azerbaijan to Europe, bypassing Russia—which was proposed as an effort to diminish Europe's energy dependence on Russian natural gas, and was in the works for a decade until it was finally shelved in 2011.

**Udensiva-Brenner:** Also due to Russia's efforts?

**Decker:** The Nabucco Pipeline was plagued by questions of supply availability. Iraq was too unstable to be a supplier, and there are sanctions against Iran. Azerbaijan agreed to provide the gas; however, it doesn't have enough natural gas to supply the entire pipeline. The development of the project would have needed to be closely linked with the construction of the Trans-Caspian Gas Pipeline—the only cost-effective and reliable way to move gas across the Caspian Sea. As I mentioned, this pipeline has yet to be created.

Supply was the surface reason, but it was underscored by Russia's tactics to disrupt Nabucco construction. In 2007, Gazprom proposed the South-Stream Pipeline [routed to transport gas from Russia to Europe via the Black Sea, with construction initiated in December 2012 and operation projected to begin in 2015], which would compete with Nabucco for supplies, import markets, and financing. Russia also contracted natural gas suppliers away from Nabucco, offering to buy up Azerbaijan's excess natural gas. The offer was initially refused, but then accepted in 2009, after a blip in Azerbaijan's relations with Turkey.

In addition, Russia used internal contacts with states that had previously supported the Nabucco Pipeline, such as Romania, to gain support for South-Stream. It publicly questioned Nabucco's supply availability, and, eventually, weakened the project's viability, ultimately leading to its cancellation in 2012.

**Udensiva-Brenner:** And how does the Central Asia-China Pipeline fit in to all this?

**Decker:** While Russia was making efforts to disrupt the Nabucco Pipeline, China, whose demand for natural gas increased over the last decade, was completing agreements with Kazakhstan, Turkmenistan, and Uzbekistan to build the Central Asia-China Pipeline, which runs from Turkmenistan to China. But, Russia's reaction to this pipeline was markedly different from its reaction to the Nabucco and the Trans-Caspian pipelines. Russia could have done things if not to prevent the Central Asia-China Pipeline, to get access to the Chinese market before the pipeline was built. The Chinese market is there, it has the demand, and Russia could have cashed in. But instead Russia largely ignored the Central Asia-China Pipeline. At the time, the European market was the market willing to pay large amounts; it was the guaranteed market.[1] Russia allowed China to build the Central Asia-China Pipeline because it helped Russia maintain its European market by decreasing the feasibility of the Nabucco Pipeline. It just so happened that the two pipelines coincided, and Nabucco was a bigger threat, and Russia desperately needed the European market in the short term.

By choosing Europe, Russia effectively closed itself to the potentialities of the Asian market—which required more effort on its part, such as large-scale investment in East Siberian and

[1] **Holly Decker:** Currently, there is talk of EU customers renegotiating contracts with Gazprom. There are pressures for Gazprom to sell its gas at spot prices, and the company was already forced to refund European customers $2.7 billion in 2012. EU members are still paying high prices, but this is likely to change.

Far Eastern fields and pipelines to China—and weakened its own position on the Eurasian markets; Central Asian producers are now able to use their gas exports to China to leverage prices against Russia in pricing disputes.

Also, unfortunately for Russia, the Central Asia-China Pipeline was completed at nearly the same time as the explosion on the Central Asia Center Pipeline in 2009, which disrupted gas flow between Russia and Turkmenistan . . . so, suddenly, China became the primary market, and Russia was suffering not only economically—it also lost large amounts of political influence.

**Udensiva-Brenner:** Would you say this is one of the reasons for Russia's dire economic state?

**Decker:** Russia's dire economic state resulted from a lot more than just the pipeline. But the pipeline does contribute in part, because Russia no longer has access to very cheap gas, and now it has to look elsewhere. While Russia does have large amounts of gas in East Siberia and the Far East, it doesn't have the infrastructure to extract and transport it, and it hasn't put in the investment needed to start a new production facility or to open up a new field; even if Russia were to start accessing a lot of these resources today, it probably won't have access to the revenue for another five to seven years.

**Udensiva-Brenner:** And how is Russia reacting to all this?

**Decker:** I would love to be a fly on the wall to find out what's actually being said about the Central Asia-China Pipeline now, because in the media it's been downplayed.

**Udensiva-Brenner:** Downplayed in what way? Are you referring to the Russian media?

**Decker:** The Russian media, but to be fair, in the U.S. media as well. The Central Asia-China Pipeline is rarely mentioned, and certainly not mentioned as a threat. When it does come up, it is often put in the context of how it has disrupted the Nabucco Pipeline. You know, searching for this, finding out about the Central Asia-China Pipeline, was more of an accident for me. I was reading something where the Central Asia-China Pipeline was mentioned, and the next sentence I expected was, "and this is how Russia tried to disrupt it," and it just never came.

**Udensiva-Brenner:** Is that what inspired your thesis?

**Decker:** Yes; I wanted to know why. Not much has been done on that specific pipeline. A lot of my thesis consisted of cobbling together a sentence from one author or another who had an insight, but might have only had a paragraph or two on the Central Asia-China pipeline. This is not the pipeline that everyone thinks about; it's the pipeline that's ignored.

**Udensiva-Brenner:** Why do you think that is?

**Decker:** In part, because Russia tried so hard to disrupt the Nabucco Pipeline, and in part because Europe has had the issues with gas being cut off, and Europe is what we see, what we're closest too. So, in the Western media we get: Russia and Ukraine have gas dispute and no gas flows to Europe for 14 days. Whereas we don't hear much about China in this context, and there hasn't been this disruption that has caused media attention, and there hasn't been this fight by Russia to try and stop this pipeline from being built.

**Udensiva-Brenner:** So, China managed to build the Central Asia-China Pipeline without attracting too much international attention, and Russia made a poor strategic decision by focusing on Nabucco and neglecting to oppose it; as a result, Russia's position in the region is waning?

**Decker:** Russia's position is waning. And China's position is growing. So, you have to wonder if Central Asia, Turkmenistan in particular, has lost one overlord only to gain another.[2]

**Udensiva-Brenner:** You've done such a great job with your thesis and made a lot of lasting connections at the Harriman; do you have any advice to incoming and current students? How can they take better advantage of the program?

**Decker:** Get to know your professors and work closely with them. I didn't have to take any classes during my final semester; I was mostly done with my credits, but I took three oil and gas classes on top of my thesis. Columbia is a once in a lifetime opportunity, and you have access to some of the best professors in the world. Take the classes that interest you.

[2] **Holly Decker:** Turkmenistan is going to be the state most affected by the shift in energy power dynamics. Kazakhstan has had Western involvement for years, primarily in terms of petroleum. There was less Western interest in Turkmenistan. Before Central Asia-China, Turkmenistan had two options, send gas to Iran or send it to Russia. The CAC pipeline exploded under suspect circumstances, the relations between Russia and Turkmenistan haven't really recovered, and Russia is only importing a very small amount of gas from Turkmenistan. China now gets the majority of Turkmen gas. Kazakhstan has other options. Uzbekistan wasn't really a player. But Turkmenistan, I believe, will feel the brunt.