

Kazakhstan's Relations

with the South Caucasian states

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Abstract

Since independence, Kazakhstan's relations with the states of the South Caucasus have been primarily determined by pragmatic considerations. Azerbaijan, and to a lesser extent Georgia, became attractive partners when Kazakhstan required additional export facilities for its commodities. There are, however, other important ties between Kazakhstan and Azerbaijan, stemming from their location on the Caspian Sea, in addition to historical and cultural affinities. The differences between the two countries – in physical and human geography, as well as in terms of their political alignments – far from creating barriers, have produced mutually beneficial prospects. The emerging Kazakhstani-Azerbaijani partnership is a step towards the development of what could become a strategic east-west network.

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In recent years, Kazakhstan's relationships with the South Caucasian states, particularly with Azerbaijan, have been deepening. Situated on opposite sides of the Caspian Sea, the two countries have a natural affinity. They have complementary capabilities as well as shared interests and concerns. The relationship is given added depth by the bonds of a common history and common ethnic roots.¹ The Kazakhstani-Azerbaijani partnership is significant, because it has the potential to become a strategic trans-Caspian link, with Kazakhstan representing the eastern portal, and Azerbaijan the western portal. The links between Kazakhstan and the two other South Caucasian states are weaker, lacking the physical proximity and the cultural ties that facilitate cooperation with Azerbaijan. However, as Kazakhstan's need for new export routes grows, so Georgia's ports on the Black Sea are starting to provide the basis for a closer relationship. By contrast, Armenia, landlocked and hemmed in by neighbors with whom it has relations that can at best be described as problematic, offers little immediate scope for a productive partnership. This paper looks at these budding alignments from the perspective of Astana's foreign policy objectives.

1 These ties were stressed by Azerbaijani President Ilham Aliyev in his speech at the inaugural session of the first Summit of the Cooperation Council of Turkic States, Almaty, October 2011. Available at: <http://en.president.az/articles/3383> [retrieved 16 February 2012].

This is not to underestimate the importance of the 'view from across the Caspian'. Nevertheless, it is Kazakhstan, the larger, economically more powerful and internationally more active partner, which is setting the agenda for this project. The main body of the paper examines various aspects of Kazakhstani-Azerbaijani cooperation. Relations with Georgia and Armenia are less developed, hence are treated more briefly here.

Kazakhstan and Azerbaijan: Similar but Different

The most obvious similarity between Kazakhstan and Azerbaijan is that they both have world-class reserves of hydrocarbons. Since the collapse of the Soviet Union, these resources have attracted the attention of the major international oil companies, as well as a growing number of Asian national oil companies. In other respects, the two countries have very different physical geographies. Situated on the north-eastern littoral of the Caspian Sea, Kazakhstan has a coastline of some 1,900 km. Spanning the notional divide between Europe and Asia, it shares long land borders with China, the Russian Federation (hereafter 'Russia'), and the Central Asian states of Uzbekistan, Turkmenistan and Kyrgyzstan. It has an immensely varied relief, marked by high mountains, rolling steppes, deserts and deep depressions. Its abundant resource base includes

good agricultural land, which is enabling the country to become one of the world's top grain exporters.² Kazakhstan has a relatively small population – an estimated 15.5 million – but by size of territory (over 2.7 million sq. km), it is the ninth largest country in the world.³

By comparison, Azerbaijan is a small, densely populated country, with a population of 8.4 million, and

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a total territory of 86,000 sq. km. This includes Nagorno-Karabakh (Garabagh), now under military occupation by Armenia, and the exclave of Nakhcivan, surrounded by Armenia, Iran, and Turkey. Azerbaijan stretches along the south-western rim of the Caspian, with a coastline of 713 km. To the south lie Iran and Turkey (the latter bordering Nakhcivan), and to the

2 In 2010 Kazakhstan exported over 1 million tonnes of grain to Azerbaijan (<http://news.az/articles/economy/43289>). In 2011, after a bumper harvest of 28 million tonnes, it was anticipated that exports to Azerbaijan would exceed all previous levels (<http://inform.kz/eng/article/2413995>) [retrieved 16 February 2012].

3 Data in this section are taken from the relevant country chapters of the CIA World Factbook 2012. Available at: <https://www.cia.gov/library/publications/the-world-factbook/geos/aj.html> ; <https://www.cia.gov/library/publications/the-world-factbook/geos/kz.html> [retrieved 10 February 2012].

north, Russia; Georgia and Armenia are situated on its western flank. In addition to valuable mineral reserves, Azerbaijan's economic assets include agriculture (it is a major producer of tea) and fisheries.

A shared history and a shared cultural heritage have facilitated cooperation between Azerbaijan and Kazakhstan. Both countries were part of the Soviet Union, and despite the reforms that have taken place over the past two decades, the legacy of this period is still palpable. However, there are also older links, stretching back over centuries. Some of these ties may have been weakened by time and changing circumstances, but they retain a powerful emotional appeal. The chief bond is the common Turkic origin, amplified by the Turkic roots of their respective languages.⁴ Moreover, in both countries the national (i.e. state) culture emphasizes the Turkic heritage. Yet the ethnic composition is very different. Azerbaijan has a largely homogenous population (over 90 per cent Azerbaijani), while Kazakhstan is home to a large Slav population as well as some 130 other ethnic groups,⁵ thus questions of identity and cultural affiliation are more complex. A second important

4 Azerbaijani belongs to the Oghuz-Seljuk branch of Turkic languages, while Kazakh belongs to the Kipchak group; see N. A. Baskakov, *Vvedeniye v izuchenije tjurkskikh yazykov*, Moscow, 1969, relevant chapters.

5 According to the 2009 census, Kazakhs constituted 63.1% of the total population, Russians 23.7%, Uzbeks 2.8%, Ukrainians 2.1%, Uighurs 1.4%, Tatars 1.3%, Germans 1.1%, other groups 4.5%.

bond is Islam. Both countries are officially secular, but each has a long tradition of adherence to the Muslim faith. Again, however, there are differences: Kazakhstan forms part of the worldwide Sunni community, while in Azerbaijan, an estimated 70 per cent of the Muslims follow the Shia branch of Islam.⁶

Delimitation of the Caspian Sea

The geographic proximity of Azerbaijan and Kazakhstan, maritime neighbors across the Caspian, mean that they are inextricably bound together by a web of common interests and concerns. After independence, the first issue that required close interaction between the two states was the legal status of the Caspian Sea. For almost two centuries the only littoral powers had been Iran and the Russian empire/Soviet Union. Their use of the Sea and its resources had been regulated by bilateral agreements and treaties, but there had been no official discussion either of national sovereignty or of the delimitation of national sectors, thus the legal status of the Caspian Sea was not formally defined. After the disintegration of the Soviet Union, three new littoral states – Azerbaijan, Kazakhstan and Turkmenistan – suddenly came into existence and these questions assumed paramount

⁶ See *Mapping the Global Muslim Population: A Report on the Size and Distribution of the World's Muslim Population*, October 2009, p. 39. Available at: www.pewforum.org [retrieved 10 February 2012].

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importance. The fundamental issue was consensus agreement on the type of legal regime that should apply (the law of the sea, of frontier lakes, etc). Russia and Iran argued that the Sea should be treated as an 'indivisible reservoir'. By contrast, the new littoral states called for it to be divided into national sectors, and put forward various proposals for the way in which it should be delimited.⁷

In April 1992, Iran initiated the formation of the Caspian Sea Cooperation Zone (also known as the Caspian Sea Organization), comprising all the littoral states.⁸ The aim was to coordinate the national positions of these states on issues of common concern. However, hampered by tensions and divisions between the participants, it was unable to make progress and

⁷ For the historical background, see A. Granmayeh, 'Legal History of the Caspian Sea', in S. Akiner (ed.), *The Caspian: Politics, Energy and Security*, London, 2004, pp. 17-47; an important insight into the negotiations that took place in the early 1990s is given by V. Gizzatov, the Kazakhstani Deputy Foreign Minister with responsibility for these issues, in 'Negotiations on the legal status of the Caspian Sea 1992-1996: View from Kazakhstan', *op. cit.*, pp. 48-59.

⁸ M. Mozaffari, (ed.), *Security Politics in the Commonwealth of Independent States: the Southern Belt*, London, 1997, esp. pp. 151-153.

soon faded away. Nevertheless, the need to reach consensus on a range of crucial issues remained. In 1996, a Special Working Group (SWG), composed of academics and senior government officials from the five states, was formed in order to develop a convention on the legal status of the Sea. The first summit meeting between the leaders of the Caspian littoral states was convened in April 2002. Ten years later, after many meetings of the SWG and two more full-scale summits, some issues had been resolved but there was still no final agreement on an overall legal regime for the Sea. Meanwhile, the three northern states – Russia, Kazakhstan and Azerbaijan – began working on the demarcation of the sectors of the seabed to which they each laid claim. In July 1998 Russia and Kazakhstan signed a bilateral agreement on the delimitation of their adjoining sectors for subsoil use; a protocol to the agreement, setting out the geographical co-ordinates of the median line, was added in May 2002.⁹ Kazakhstan and Azerbaijan signed a similar agreement and appropriate protocol, in November 2001 and February 2003 respectively. These states signed a trilateral agreement delimitating the junction point of the contiguous sectors in May that year, thus completing the division of this part of the Sea. Analogous discussions were taking place between the border

⁹ A protocol on amendments to the 2002 document was agreed in January 2006.

states in the southern part of the Sea – Azerbaijan, Iran and Turkmenistan – but as of 2012, no binding agreement had been reached.

Security in the Caspian Sea

A serious area of concern for Azerbaijan and Kazakhstan, as for the other Caspian states, was environmental security. High levels of pollution, in part the legacy of more than a century of oil extraction and transportation, in part the result of intensive industrialization and urbanization in coastal regions, were having a devastating impact on the Sea's biosphere. Other environmental threats included the inadvertent introduction of invasive alien organisms (e.g. by-products of toxic agricultural fertilizers), which robbed the water of oxygen and created 'dead zones'. Such patches were spreading aggressively in the northern Caspian, notably in the vicinity of the Absheron peninsula. The cumulative effect of these various stresses was that the fragile marine environment was being degraded at an alarming rate. Fish stocks, including the precious caviar-producing sturgeon, fell to dangerously low levels; there was also a catastrophic decline in the numbers of the unique Caspian seal (*Phoca caspica*).¹⁰

Joint action was urgently needed. The

¹⁰ For a more detailed assessment, see S. Akiner, 'Environmental Security in the Caspian Sea', *The Caspian: Politics, Energy and Security*, pp. 343-362.

first step towards creating a unified approach came in May 1994, when the five states signed the Almaty Declaration on Environmental Co-operation. Four years later, the multi-sectoral Caspian Environment Program was launched; funded by the Global Environmental Facility, the EU and various UN bodies, it institutionalized a comprehensive action plan to address environmental and bio-resource issues.¹¹ These measures paved the way for the signing of the Framework Convention for the Protection of the Marine Environment of the Caspian Sea in November 2003 in Tehran – the first treaty agreement to which all five littoral states acceded. This document obliged the signatories to observe agreed principles and norms of environmental good conduct. It was not in itself a solution to the problems of the Sea, but it provided a sound basis for future collective action.

Other aspects of Caspian security were also causing concern. Organized crime was on the rise, including mass poaching of fish, piracy, and the trafficking of narcotics and other contraband. There were fears, too, regarding the vulnerability of onshore and offshore installations to terrorist attacks. In response to these threats, the littoral states began to build up

¹¹ For an overview of activities to date, see: <http://iwlearn.net/iw-projects/596/reports/strategic-action-programme-sap/@@view-sims-server-related-items.html> [retrieved 16 February 2012].

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their Caspian naval bases, to upgrade their fleets and to train special marine forces. After the dissolution of the Soviet Union, the Soviet Caspian flotilla had been divided equally between the four successor littoral states. Subsequently, Azerbaijan, Kazakhstan and Turkmenistan began to develop independent naval capabilities. They were assisted by foreign military aid, much of which was provided by Turkey and the USA.¹² In August 2002, Russia staged large-scale military exercises in the Caspian, designed to combat terrorism and other security threats. Azerbaijan and Kazakhstan also took part in the operations, while Iran sent observers; Turkmenistan abstained, on the grounds that this would violate its declared status of neutrality.¹³

¹² For a careful analysis and chronology of this process see M. Katik, 'Militarisation of the Caspian Sea', in S. Akiner (ed.), *The Caspian: Politics, Energy and Security*, London, 2004, pp. 297-310. For an update on the situation, see J. Kucera, 'U.S. Helping Build Caspian Navies', 13 March 2011; available at: <http://www.eurasianet.org/node/63063> [retrieved 1 February 2012].

¹³ The central tenet of Turkmenistan's foreign policy is the status of Permanent Neutrality, formally recognised and supported by the United Nations General Assembly on 12 December 1995. This precludes participation in any organisation, or offensive action, of a military nature.

There was some joint participation (again without Turkmenistan) in later maneuvers and in 2009, Russia and Iran conducted their first combined exercises in the Caspian.¹⁴ In order to institutionalize such efforts, Moscow proposed the establishment of a joint naval task force, similar in concept to the Black Sea Naval Cooperation Task Group,¹⁵ to protect the littoral states from organized crime, as well as to ensure the safety of energy supplies. However, the idea failed to win support from the other Caspian states.

There was an additional reason to strengthen national maritime defences: the protection of (*de facto*) national territorial waters against possible encroachment by neighboring states. This was a matter of particular concern in the southern part of the Sea, where there was still no formal demarcation settlement between Azerbaijan, Iran and Turkmenistan. Yet the militarization of the Sea was in itself a dangerous development, heightening the risk that boundary disagreements might escalate into a full-scale conflict. A foretaste of this was given in July 2001, when there was a confrontation between Iranian and Azerbaijani vessels over a disputed

area of the Sea.¹⁶ The incident was defused relatively quickly, but it had shown just how easily such a situation could spiral out of control. Given the wider political tensions in the region, as well as the presence of Western energy companies in major exploration and development projects, there was a high risk that in the future such clashes would be internationalized, drawing in external armed forces – with disastrous consequences for the entire Caspian basin. With this in mind, the Caspian states unanimously agreed that no foreign military presence should be allowed on the Sea. The first step towards establishing a formal basis for a coordinated position on security issues was taken at the third Caspian Summit, held in Baku in 2010, when the five states signed a joint agreement on Caspian security. In a related move, Turkmenistan hosted an international forum on disarmament issues in Central Asia and the Caspian basin; it proposed the establishment of a high-level forum on regional security, peace, and cooperation. In September 2011, at the 66th session of the UN General Assembly, Turkmenistan confirmed its willingness to host the inaugural meeting of such a body.

¹⁴ Hana Levi Julian 'Russia-Iran Naval Maneuvers Begin in Caspian Sea', 29 July 2009, *Israel National News*. Available at: <http://www.israelnationalnews.com/News/News.aspx/132634> [retrieved 16 February 2012].

¹⁵ Katik, *op. cit.*, pp. 306-307.

¹⁶ In July 2001, an armed Iranian patrol boat confronted two Azerbaijani boats. The vessels, on lease to BP, were in area part of the Sea that was disputed by Azerbaijan and Iran. They were evicted following a small but menacing display of Iranian naval and air strength; as a result, BP decided to suspend its exploration activities in the southern Caspian.

Exploration and Development Projects

After the collapse of the Soviet Union, the rich hydrocarbon reserves of Kazakhstan and Azerbaijan swiftly attracted a massive influx of foreign direct investment. In Kazakhstan, three massive projects were initiated in quick succession. The first agreement, concluded with the US Chevron Corporation in May 1992, was for the development of the Tengiz field, on the north-eastern stretch of the Caspian coast.¹⁷ The second, also launched in 1992, was for the rehabilitation and development of the huge Karachaganak gas field in north-west Kazakhstan. This was undertaken by a consortium headed by British Gas and its partner, Agip SA.¹⁸ The third, and largest, venture was the exploration and development of the Kashagan field. In 1993 the Caspian Shelf Consortium¹⁹ started to survey an offshore area in the north-eastern (Kazakhstani) sector of the Sea. This resulted in the discovery, announced

¹⁷ The joint venture, Tengizchevroil (TCO) was established between Chevron and Kazakhstan to manage the project. Other petroleum companies later bought into the venture; Chevron retained a 50% stake, with the remainder divided between KazMunaiGaz, (20%), ExxonMobil Kazakhstan Ventures (25%) and LUKArco (5%).

¹⁸ The field had been in production since 1984, but was in urgent need of investment and modernization. The Karachaganak Petroleum Operating Co (KPO) was formed, with BG and Agip SA/Eni SpA as joint operators (each with a stake of 32.5%), and Chevron (20%) and LUKoil (15%) as junior partners. Production from the redevelopment began in 2000.

¹⁹ Comprised of Agip, British Gas, British Petroleum, Mobil, Royal Dutch/Shell, Statoil, and Total.

in July 2000, of a hitherto unknown mega structure. The find was one of the most significant events in the recent history of international energy exploration. However, Kashagan proved to be exceptionally difficult to develop, owing to the extraordinarily complex structure of the field and the extreme environmental conditions. It was originally anticipated that commercial production would begin in 2005, but after a series of delays and missed deadlines, the start-up date was postponed until October 2013.²⁰

In Azerbaijan, too, large-scale projects were being undertaken in partnership with Western companies. In 1994, a BP-led consortium signed a US \$8 billion contract – dubbed the ‘Contract of the Century’ – with the Government of Azerbaijan to develop the offshore Azeri, Chirag (Çırağ) and deep-water Guneshli (Güneşli) fields in the western (Azerbaijani) sector of the Caspian.²¹ In July 1999, there was more good news when BP Amoco announced the discovery of another offshore field, Shah Deniz (Şah Deniz), which contained estimated gas resources of some 400 billion

²⁰ The consortium underwent several changes of structure and of name (as did individual companies). In 2008, now known as the North Caspian Operating Company, the major partners included Eni-Agip, Total, ExxonMobil and Royal Dutch/Shell and KazMunaiGaz, each with stakes of 16.8%.

²¹ In October 1995 the Azerbaijan International Operating Company (AIOC), a consortium of companies from Azerbaijan, Japan, Norway, Russia, Saudi Arabia, Turkey, the United Kingdom and the USA, was established to develop these offshore fields; production of petroleum for export began in November 1997.

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cubic meters. Coming one year ahead of the discovery of Kashagan, this was a landmark event, since it was the first confirmed discovery of new energy resources in the region since independence.

Meanwhile, in both countries other projects were being developed, onshore and offshore. The international oil companies were still the major investors, but in Kazakhstan, Asian national oil companies were becoming increasingly active, mainly from China, but also from India and South Korea. The same trend was taking place in Azerbaijan, though somewhat less intensively.

Pipeline Politics

The projects described above vastly increased the output of oil and gas from Azerbaijan and Kazakhstan. This, in turn, required new export routes, not only to cope with the growing volumes that were being produced, but also to reach new markets. The existing pipelines had been part of the internal Soviet network. This not only gave very limited market access, but also made the newly independent states vulnerable to Russian political and economic pressure. The situation

was highly unsatisfactory, not only for Azerbaijan and Kazakhstan, but also for foreign investors, who wanted to export hydrocarbons from the Caspian without the potential threat of Russian interference. Yet the construction of new pipelines was complicated by several factors, not least the long distances to international terminals and consequent high cost of such projects. There were also other problems, including environmental risks, U.S. sanctions against Iran, and regional instability that could threaten the trans-boundary transportation of hydrocarbons. Nevertheless, such pipelines were eventually built, and the Caspian basin was gradually integrated into the global energy market.

During these years, Kazakhstan and Azerbaijan pursued their own export strategies. These sometimes coincided, but at other times diverged. In 1995, the routes for Azerbaijan's first new export pipelines were announced. Designed to carry 'early oil' from Baku to the Black Sea coast, one branch ran north to the Russian port of Novorossiysk, while a southern branch was connected to the Georgian port of Supsa. Securing agreement from all the interested parties (states, producers and investors) had been difficult, but finalizing the route for the main export pipeline was an even more complicated undertaking, as so many conflicting geo-strategic

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interests were at stake.²² The first notable sign of progress came in October 1998, when with strong US backing, the governments of Azerbaijan, Georgia, Kazakhstan, Turkey and Turkmenistan signed the Ankara Declaration in support of a pipeline from Azerbaijan to the Turkish Mediterranean coast. Nevertheless, economic, political and environmental hurdles delayed implementation of the project for several more years. Also, there were doubts as to whether Azerbaijan would be able to produce enough oil to make such a pipeline commercially viable. It was only in 2002, when the extent of the reserves in the Kashagan field (in the Kazakhstani sector of the Sea) became known that the project seemed feasible. Thus, encouraged by indications that Kazakhstan would export some of its oil by this route, a BP-headed consortium undertook the construction of a pipeline from Baku via Tbilisi to the Turkish port of Ceyhan (henceforth known as the BTC pipeline). Completed in early

2005, BTC became operational in May 2006. Concurrently, negotiations were underway for the construction of a parallel gas pipeline, to run from the giant Shah Deniz field via Tbilisi to the Turkish city of Erzurum. Work on this project, known as the South Caspian pipeline (or simply the Baku-Tbilisi-Erzurum pipeline), began in 2004; it became operational in September 2006.

Kazakhstan, though, was not as yet fully committed to the Azerbaijan-Georgian-Turkish route. Instead, it was pursuing a number of other options. Its first priority was the construction of a pipeline linking Tengiz to Novorossiysk. To this end, the Caspian Pipeline Consortium (CPC) was created in 1992. Originally a joint venture between the governments of Kazakhstan and Oman, the consortium was later expanded to include Azerbaijan, Russia and several Western companies. There were numerous disputes over such issues as management and share structure, but the pipeline was eventually finished in 2001. In the meantime, the existing pipeline network that carried crude oil from central Kazakhstan to Samara (Volga region of Russia) was upgraded and expanded.

The most significant development during this period, however, was the evolving relationship with China. In 1997 Kazakhstan began sending oil

22 A great deal has been written about these issues, examining them from many different angles. A good overview is given by R. Kandiyoti, *Pipelines: Flowing Oil and Crude Politics*, London, 2008, esp. pp. 154-235.

by rail to its eastern neighbor. In 2002, the two countries embarked on the construction of a cross-border pipeline. Completed in December 2005, it had an annual throughput of 10 million tons, and carried Kazakhstani oil as well as Russian oil from the west Siberian oilfields. A second phase, extending the pipeline westwards to the Caspian coast, was completed in 2009. In parallel to this, plans were developed for a Kazakhstan-China gas pipeline, to be supplied by gas from the Karachaganak, Tengiz and Kashagan fields. This scheme was later expanded to run from Turkmenistan via Uzbekistan and Kazakhstan to China's Xinjiang region. The entire undertaking, completed in less than two years, was formally inaugurated in December 2009.

Trans-Caspian Deliveries

For centuries, passengers and cargoes had crisscrossed the Caspian by boat. After independence, the volume of maritime traffic grew rapidly, using ferries, barges and tankers. In 1996 Kazakhstan began 'swap deals' with Iran, shipping oil across the Sea for refining and distribution in northern Iran, in exchange for an equivalent amount of crude petroleum at Iranian storage facilities elsewhere in the world. Meanwhile, Kazakhstan was eager to supply oil and gas to the West. This was partly because its hydrocarbon reserves were immense,

but also in order to maintain geo-economic balance between routes to Russia, China and Iran. Accordingly, in June 2006 Astana finally agreed to join the BTC project (although the treaty was not ratified until May 2008). The agreement allowed for up to 500,000 barrels per day of petroleum, mainly from the Tengiz field, to be shipped by tanker from the Kazakhstani port of Aktau to Baku for delivery to BTC and thence to markets in Europe and elsewhere.

This dovetailed with the Kazakhstani government's plan to develop an integrated Kazakhstan Caspian Transportation System (KCTS).²³ The concept, which envisaged close co-operation between Kazakhstan and Azerbaijan, was formally agreed by the two countries in 2009. The primary emphasis was on developing tanker and barge transportation across the Sea, together with the necessary onshore infrastructure. The bulk of the trans-shipped cargo would be oil, but grain and other commodities would also be carried across the Sea. In the longer term, the aim was to expand the scheme to include all the littoral states. This scheme complemented initiatives put forward by the EU to develop transport and energy

23 For a description of the scope of the project see: <http://www.kmg.kz/en/manufacturing/oil/kkst/> [retrieved 16 February 2012]. This was part of a larger programme, launched by the Kazakhstani Government in 2005, to create a comprehensive 'Sea-Land' integrated transport and logistics network. See further: <http://en.trend.az/capital/business/1984750.html> [retrieved 10 February 2012].

corridors from Central Asia via the Caucasus to Europe. One of these was INOGATE (an acronym derived from an earlier project entitled ‘Interstate Oil and Gas Transport to Europe’), a program aimed at enhancing energy co-operation between the EU, Central Asia, Caucasus and the Black Sea. In November 2004, a ministerial-level INOGATE Energy Conference was held in Baku (the ‘Baku Initiative’), followed by a meeting in Astana in November 2006, which resulted in the Astana Energy Ministerial Declaration on scope and principles.²⁴ The other project was TRACECA (Transport Corridor Europe, Caucasus, Asia). Launched in May 1993, it was largely focused on the western sector of the proposed transport corridor. Neither of these programs lived up to the expectations they had created, since their projects were largely confined to the realm of planning. However, TRACECA did undertake some useful work in developing and modernizing the Caspian ports.²⁵

The construction of sub-sea pipelines was a possible, but highly controversial, extension of trans-Caspian links. In 1998 Kazakhstan had concluded an agreement with Royal Dutch/Shell, Mobil and

Chevron for a feasibility study on parallel underwater oil and gas pipelines to Azerbaijan. However, it was not until late 2002 that serious negotiations were undertaken, resulting in a framework agreement on the construction of an Aktau-Baku oil pipeline in March 2003. After some hesitation, Turkmenistan also gave its support to a sub-sea gas pipeline to Baku. This was largely driven by its interest in the Nabucco project – a scheme to build a pipeline to transport natural gas from Turkey (starting from Erzurum) to Europe, bypassing Russia. It was envisaged that Nabucco would receive gas from Azerbaijan, with contributions from Turkmenistan and Kazakhstan. The venture began to take shape in 2002, when a group of Western energy companies, with strong support from the EU and the USA, signed a protocol of intention. However, the project encountered many obstacles, not least of which was wavering political support. In January 2011, European Commission President Jose Manuel Barroso and Azerbaijani President Ilham Aliyev signed a joint declaration that committed Azerbaijan to providing ‘substantial’ long-term gas supplies to EU countries. In October, Turkmenistan also began legal negotiations to join the project, although by this time there were serious doubts in some quarters as to whether Nabucco would ever be implemented. Others,

²⁴ See: http://www.inogate.org/inogate_programme/about_inogate [retrieved 1 February 2012].

²⁵ See: http://ec.europa.eu/europeaid/where/asia/regional-cooperation-centralasia/transport/traceca_en.htm (retrieved 1 February, 2012).

however, including senior Turkish officials, remained optimistic.²⁶

Yet even if Nabucco were in doubt, by 2012 the issue of trans-Caspian pipelines had gained momentum to the point where, for Azerbaijan, Kazakhstan and Turkmenistan, the question was ‘when’, rather than ‘whether’. Russia and Iran, on the other hand, remained strongly opposed to such projects, in part for political reasons, but also because of genuine environmental concerns. Local environmentalists, too, were against these proposals, fearing that they would increase the risk of damage to the delicate ecosystem of the Caspian. Their arguments were given added weight by the impact of the oil spill in the Gulf of Mexico in 2010. If such an accident were to occur in an enclosed stretch of water such as the Caspian, the consequences would be infinitely worse. The transportation of gas is admittedly much less hazardous than of oil, but there were fears that if an underwater gas pipeline were built, it would set a precedent for the construction of an oil pipeline.

Trade and Investment

Despite the close cooperation between Kazakhstan and Azerbaijan

26 ‘Confidence in the Nabucco Project Fading’, 1 February 2012. Available at: <http://www.naturalgaseurope.com/confidence-in-the-nabucco-project-fading-4713> [retrieved 6 February 2012]. For a different opinion, see: ‘Turkey believes Nabucco not to lose its importance’, 16 February 2012; available at: <http://en.trend.az/capital/energy/1993131.html> [retrieved 16 February 2012].

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over Caspian issues, in other respects the general tenor of the bilateral relationship was low-key. There was a steady exchange of official delegations and the Kazakhstan-Azerbaijan Intergovernmental Economic Cooperation Commission, established in 1999, convened regularly. There were no headline-grabbing problems, but neither were there any significant joint undertakings. It was the exchange of state visits by the two heads of state, by President Ilham Aliyev to Astana in March 2004, and President Nazarbayev to Azerbaijan in May 2005, which signaled a more vigorous approach to the relationship. The outcome of these visits was a Strategic Partnership and Allied Relations Treaty. At the same time, a long-term Cooperation Program in the spheres of culture, science and tourism was launched. Bilateral trade began to increase, with Kazakhstan exporting grain and some manufactured goods to Azerbaijan and in return, importing oil products and machinery.

In April 2007, the Baku Grain Terminal was inaugurated, with President Ilham Aliyev and Prime Minister Masimov of Kazakhstan in attendance. This was a pioneering Kazakhstani-Azerbaijani joint enterprise that moved beyond the energy sector to support bulk trading in other commodities. Building on the concept of the KCTS, the Terminal benefitted from improvements in trans-Caspian transportation. The combination of access to excellent road, rail and sea transport links, along with modern loading and storage facilities, enabled it to handle large consignments of Kazakhstani grain. In its first year of operation (2007-2008) the volume of wheat trans-shipped through the Terminal was 80,000 tons.²⁷ This trade served the needs of both countries. Some of the grain was used to produce high quality flour and grain products for the Azerbaijani market, while the remainder was exported to other parts of the Caucasus, to the Black Sea region, the Middle East and North Africa. In 2010, when drought disrupted supplies of Russian crops and grain to Azerbaijan, Kazakhstan was able to take over the entire contract.²⁸

27 See further: <http://www.asadov-capital.com/ev/graint/>

28 M. Sieff, 'Kazakhstan takes over Azerbaijan wheat market from Russia', 18 August 2010; see: <http://www.universalnewswires.com/centralasia/viewstory.aspx?id=1453> [retrieved 16 February 2012].

Political Alignments and Regional Organizations

After independence, Azerbaijan and Kazakhstan pursued different foreign policy objectives. Kazakhstan favored a 'multi-vector' approach to international relations. This had two central planks. One was a firm refusal to be drawn into exclusive political-ideological blocs of any complexion; the other was a readiness to develop a broad but skillfully balanced, range of relationships with partners around the globe – in Europe, Asia, Australasia, the Americas and eventually Africa. This allowed Kazakhstan to maintain close ties with states that had rival or even mutually hostile interests and goals. Thus, it was a firm ally of Russia, but also had strong links to China; it had an excellent relationship with the U.S., but also with Iran. Azerbaijan, by contrast, was strongly pro-Western in orientation.

These different political stances were reflected in the multilateral relationships of the two countries. There was some degree of overlap, but also divergence. Both were members of the UN and UN-related bodies, likewise of other major international organizations, including the Economic Co-operation Organization;²⁹ the Organization

29 Established in 1985 by Turkey, Iran and Pakistan. Joined by Azerbaijan, Kazakhstan, Uzbekistan, Turkmenistan, Kyrgyzstan, Tajikistan and Afghanistan in 1992. In February 2012 it was announced that the ECO Summit that year would be held in Baku. See: <http://news.az/articles/economy/54794> [retrieved 16 February 2012].

of Islamic Cooperation; NATO's Partnership for Peace Program (both countries had 'Individual Partnership Action Plans'); the Organization for Security and Co-operation in Europe (OSCE); and the Conference on Interaction and Confidence Building Measures in Asia (CICA, a trans-Asian equivalent to the OSCE, launched by Kazakhstan in 1992).

What Azerbaijan and Kazakhstan did not share was membership of the bodies that were most directly linked to their key relationships. For Kazakhstan, this meant Russia and China. There were three regional organizations that provided an effective forum within which Astana was able to negotiate and manage relationships with these giant neighbors. Two were CIS-based groupings: the Eurasian Economic Community (comprising Belarus, Russia, Kazakhstan, Kyrgyzstan, and Tajikistan)³⁰ and the Collective Security Treaty Organization (same membership as EurAsEC, plus Armenia and Uzbekistan).³¹ The third was the Shanghai Cooperation Organization (SCO), which encompassed China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan

30 EurAsEC was part of a process to enhance CIS integration. The project was first proposed by President Nazarbayev in 1994; it developed in stages, introducing a Customs Union in 2006, and a Common Economic Space in 2012; the aim was to establish a Eurasian Union by 2015. In 2007, a senior Kazakh diplomat, Tair Mansurov, became Secretary General of EurAsEC.

31 In 2012, the rotating chairmanship of the CSTO was held by Kazakhstan.

an Uzbekistan as full members, with India, Iran, Mongolia and Pakistan as observer states, Belarus and Sri Lanka as dialogue partners, and Afghanistan as a 'contact group' member.³² Azerbaijan, by contrast, looked westwards to Europe and the USA. This was underlined by its membership of the US-backed GUAM Organization for Democracy and Economic Development (comprising Georgia, Ukraine, Azerbaijan and Moldova).³³ In addition to its stated aims of promoting democratic values and economic development, GUAM sought to accelerate the process of integration into Europe. The leaders of this organization insisted that they were eager to develop friendly relations with Moscow, but there was a widespread perception that their main purpose was to counteract and circumscribe the spread of Russian influence. Azerbaijan assumed

32 The SCO began as an informal structure known as the 'Shanghai Five', which aimed to resolve border issues and to promote confidence-building. In June 2001, it became a fully institutionalized regional organization; at this stage Uzbekistan joined the group. The stated aims of the SCO included the promotion of security by strengthening regional peace, co-operation and stability; it also prioritized infrastructural development and economic growth. See further S. Akiner, *The Shanghai Cooperation Organisation: A Networking Organisation for a Networking World*, Global Strategy Forum, London, 2010. In 2011-2012, the SCO was chaired by Kazakhstan.

33 GUAM, originally a consultative forum, was formally established in October 1997 in Strasbourg during the Summit of the Council of Europe. In 1999, during the NATO 50th Anniversary celebrations, the GUAM group met in Washington DC; on this occasion Uzbekistan acceded to the organisation, but later withdrew. For some years GUAM appeared to stagnate, but in 2006 it was given new impetus, following a series of moves initiated by Azerbaijan and Ukraine aimed at making the organization more relevant to regional needs. Priority sectors for GUAM included energy, transport, trade and economy, counter-terrorism and the fight against organized crime.

chairmanship of GUAM in January 2012.³⁴

Turkic Groupings

One of the first regional initiatives to be launched after the collapse of the Soviet Union was the institution of annual Turkic Summits. These high-level meetings were instigated by Turkey in 1992 in order to revive cultural ties with the newly independent Turkic states of Azerbaijan, Kazakhstan, Kyrgyzstan, Turkmenistan and Uzbekistan. Concomitantly, they were a means of projecting Turkey's political and economic influence, and at the same time counteracting Iranian influence. Particular emphasis was placed on the need to develop cooperation in the transport and energy sectors. Gradually, though, it became clear that neither Turkey nor the other member states had the capacity to implement the schemes that were proposed; hence these discussions were largely theoretical. After the seventh summit, held in Istanbul in 2001, the meetings were suspended. Yet the concept of a Turkic grouping had strategic potential. In 2006 President Nazarbayev took steps to re-invigorate the project by re-casting it in a new format and setting in motion a process of institutionalization. In 2010, four Turkic states – Azerbaijan, Kazakhstan, Kyrgyzstan and Turkey

– established the inter-governmental Cooperation Council of Turkic-Speaking States (CCTS); the inaugural summit was held in Almaty in October 2011. The Business Council of Turkic Speaking States was established at the same time.

These moves coincided with a change in Kazakhstan's relations with Turkey. After the euphoria of the early 1990s had dispersed, cooperation between the two countries stabilized at a fairly modest level. It was only when Kazakhstan's economy reached a critical point of prosperity that it became possible for a real partnership to develop, based on two-way flows of investment, and joint ventures in both countries. By 2009, Kazakhstani investment in Turkey totaled US\$ 4 billion (substantially more than Turkish investment in Kazakhstan).³⁵ At the same time, a perceptible shift was underway in Ankara's foreign policy. The focus was no longer predominantly on Europe and the USA, but on a broader range of partners in the Middle East as well as further afield in Asia and Africa. This accorded well with Astana's foreign policy stance, thereby creating another bond. It was against this background that in October 2009 the presidents of the two countries signed a Strategic Partnership Agreement.

³⁴ See: <http://pik.tv/en/news/story/27247-azerbaijan-to-chair-guam-in-2012> [retrieved 16 February 2012].

³⁵ 'Turkey's Commercial and Economic Relations With Kazakhstan', Turkish Ministry of Foreign Affairs website. Available at: http://www.mfa.gov.tr/turkey_s-commercial-and-economic-relations-with-kazakhstan.en.mfa [retrieved 10 February 2012].

In a further sign of cooperation and mutual respect, in June 2010 the third CICA Summit was held in Istanbul, and on this occasion Turkey became the first state to succeed Kazakhstan, the founder of the organization, as chairman (for a two-year period of office).³⁶ Thus, renewed interest in the creation of a Turkic organization formed part of a larger trend to strengthen links between the eastern and western halves of the Turkic world.

Kazakhstan, Georgia and Armenia

Kazakhstan's relations with the other states of the South Caucasus were cordial, but for several years remained at a low level. It was only when Kazakhstan began producing large enough surpluses of export commodities – primarily oil and gas, but increasingly also grain and other agricultural crops – that Georgia's strategic location on the Black Sea began to attract Astana's attention. In May 2006, KazTransGaz (part of Kazakhstan's state oil and gas conglomerate KazMunaiGaz) acquired the Tbilgaz company, thus gaining control of gas distribution and related services in Tbilisi.³⁷ Several other acquisitions followed in sectors such as tourism and

telecommunications. That year, total investments from Kazakhstan (from state as well as private enterprises) amounted to US\$ 185.7 million, making this one of largest sources of foreign direct investment in Georgia.³⁸ The pace of investment increased the following year, as the Kazakhstani government announced plans to construct a grain terminal in the port of Poti, at an estimated cost of \$10 million (a parallel project to the Baku Grain Terminal). At the same time, KazMunaiGaz created a joint venture with the international investment company Greenoak to build a new oil refinery in Batumi, on Georgia's Black Sea coast; the estimated cost of the project was US\$ 1 billion.³⁹ A few months later, in February 2008, KazMunaiGaz acquired sole ownership of the Batumi oil terminal, also a long-term contract for the management of the Batumi port facilities.⁴⁰ Kazakhstan's appetite for Georgian acquisitions seemed boundless. Yet that summer, the mood changed abruptly and major projects such as the grain terminal and the oil refinery projects were put on indefinite hold. There were two main reasons for this. One was the Russian-Georgian military conflict in

³⁸ Website of the Ministry of Foreign Affairs of Georgia, under the rubric of Kazakhstan, sub-section Investment. Available at: http://www.mfa.gov.ge/index.php?sec_id=375&lang_id=ENG

³⁹ See: <http://www.civil.ge/eng/article.php?id=14842>

⁴⁰ See: <http://www.reuters.com/article/2008/02/06/georgia-port-sale-idUSL0682958720080206> [retrieved 10 February 2012].

³⁶ For a review of Kazakhstan's relations with Turkey, see S. Akiner, 'Evolution of Kazakhstan's Foreign Policy: 1991-2011', *Journal of Central Asian & Caucasian Studies (OAKA)*, vol. 6/12, 2011, pp. 1-21, esp. pp. 7-10.

³⁷ See further: <http://kaztransgas.kz/en/article/122> [retrieved 16 February 2012].

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August 2008. Kazakhstan was a close ally of Russia and although Astana did not make any public pronouncements in support of Russian operations, it was generally assumed that the decision to halt the projects in Georgia was politically motivated.⁴¹ A second factor was the impact of the global financial turmoil, which precipitated a crisis in Kazakhstan's banking sector in 2008-9. This in turn resulted in a shift in investment priorities.⁴² Nevertheless, these events did not signal a complete break in commercial relations. Kazakhstani investors remained engaged in a number of projects, including the management of the Batumi port and gas distribution in Tbilisi. Thus, there was every likelihood that in time, ties between Georgia and Kazakhstan would be revitalized.

41 'Kazakhstan Withdraws from NATO Exercises', 21 April 2009; available at: http://www.acus.org/new_atlanticist/kazakhstan-withdraws-nato-exercise [retrieved 10 February 2012].

42 See: <http://www.ordons.com/asia/middle-east/145-kazakhstan-stops-construction-of-oil-refinery-in-batumi.html> [retrieved 16 February 2012].

Kazakhstan's relations with Armenia followed a different path. Diplomatic relations were established on 27 August 1992, on the same day as between Kazakhstan and Azerbaijan. The presence of an Armenian diaspora in Kazakhstan, officially estimated at 25,000 people but unofficially at 100,000,⁴³ helped to create cultural and personal ties between the two countries. Moreover, although Astana was sympathetic to Azerbaijan's position on the Nagorno-Karabakh issue, it was careful to maintain friendly relations with Yerevan, and during its chairmanship of the OSCE (in 2010), it urged both sides to engage in dialogue and to seek a peaceful resolution of the conflict. However, trade and investment opportunities between the two states were very limited and there were few common political objectives. Thus, in the near future prospects for closer cooperation seemed slight.

Conclusion

As discussed above, over the past two decades Kazakhstan's relations with the South Caucasus states have been primarily determined by pragmatic considerations. Azerbaijan, and to a lesser extent Georgia, became attractive partners when Kazakhstan required additional export facilities

43 'Armenian- Kazakh relations on high level' – report of an interview with the Kazakhstani ambassador to Armenia, January 2012. Available at: <http://news.am/eng/news/8868.html> [retrieved 16 February 2012].

for its commodities. There are, however, other important ties between Kazakhstan and Azerbaijan, stemming from their location on the Caspian Sea, likewise cultural affinities that add a human dimension to the relationship. The differences between the two countries – in physical and human geography, as well as in terms of political alignments – far from creating barriers, have produced complementarities that are of mutual benefit. Each of these states is becoming a regional hub. Together, they offer access eastwards to the expanding markets of Asia, westwards to Europe and southwards to the Middle East. Taken together, these different elements form a multi-dimensional bond that has the potential to become a strong and vibrant partnership. The link with Turkey, which is similarly based on a range of economic, political and cultural ties, further broadens the possible outreach of this partnership. However, for these relationships to achieve their full potential, not merely strategic vision, but strategic patience is required. No doubt there will be delays and shifts in national priorities, provoked by any number of disruptive events at local, regional or global levels. Yet there is a logic in the (re-)creation of a trans-Caspian, and eventually a trans-Black Sea corridor. Sooner or later, this must surely be realized. The nascent

Kazakhstani-Azerbaijani partnership is the first, tentative step towards developing what could in time become a pivotal east-west network.