

**Statement before the House Foreign Affairs Committee,  
Subcommittee on Europe, Eurasia, and Emerging  
Threats**

***“EMERGING THREAT OF RESOURCE  
WARS”***

A Statement by

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**2172 Rayburn House Office Building**

**House Committee on Foreign Affairs  
Subcommittee on Europe, Eurasia, and Emerging Threats  
Hearing on “Emerging Threat of Resource Wars”  
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Mr. Chairman, Members of the Subcommittee:

It is my distinct honor and privilege to testify before you today. I understand that you wish me to address the issues related to resource competition in Central Asia, including on pipeline transportation to markets outside the region.

I do this informed by more than twenty years of experience working in Central Asia starting in 1991 when I was employed by Chevron, which was one of the first Western companies to enter the region when it signed the foundation agreement for the Tengiz joint venture with Kazakhstan here in Washington in May 1992. Since 1999, I continued to follow the region in think tanks and academia, and as an occasional consultant to the United States and foreign governments, international financial institutions, and multinational corporations.

In the interest of full disclosure, I should let the Committee know that I currently advise our Department of State on how to advance the Turkmenistan-Afghanistan-Pakistan-India (TAPI) Gas Pipeline – a subject we can return to later if you are interested.

I will stay within my competence on issues related to international oil and gas, although I understand the committee is interested in other natural resource competition, which will be addressed by other witnesses.

When the Soviet Union collapsed in 1991, Central Asia offered a unique opportunity for Western oil companies to enter a known oil and gas producing province, which was previously closed to them. The Soviets had made a number of world-class discoveries, which they did not have the technical capability to exploit, most notably onshore Kazakhstan and offshore Azerbaijan.

At the same time, these newly independent countries needed investments to enhance their economic autonomy and thereby protect their future political sovereignty. Oil and gas resources presented obvious immediate opportunities for Western investments.

The United States was also interested in helping these countries preserve their political independence by increasing their economic options away from overreliance on Russia. Additionally, as the largest oil importer in the world (still today with America's unconventional oil and gas revolution), we had an interest in seeing incremental oil and gas supplies outside of the Middle East and OPEC flow into global markets, whether we ourselves import those volumes or not.

With the help of Western investments, Central Asia and the Caucasus today produce around 3½ percent of global oil supply and hold around 2½ percent of the world's known proven reserves in oil (or four times that of Norway and the United Kingdom combined). Another way of looking at this is to say the region produces around 8½ percent of non-OPEC oil and holds around 9½ percent of non-OPEC oil reserves. In other words, oil production in Central Asia has added significantly to global supply and will continue to do so in the future.

In many ways, the energy future of the region lies as much or more in natural gas than in oil. Central Asia is estimated to hold more than 11% of world proven gas reserves, mostly concentrated in Turkmenistan which has lagged behind Kazakhstan and Azerbaijan in attracting outside investments. The region currently produces less than 5% of global gas supply, so there is tremendous potential for growth.

In addition to production from Soviet-era discoveries, new discoveries of major oil and gas fields have been made in the region. Deserving special mention are Kazakhstan's Kashagan field offshore Caspian Sea, which is the largest oil discovery in the world for over thirty years; Turkmenistan's Galkynysh gas field, which is the largest onshore gas field in the world (second only to the combined reserves of Iran's South Pars and Qatar's North Field offshore Persian Gulf); and Azerbaijan's Shah Deniz gas and condensate field.

Given its landlocked geography, Central Asia has to rely on long-haul pipelines to take its oil and gas to market. Previously Soviet pipelines in the region almost all head to European Russia either to feed the domestic Soviet market or for transshipment to European markets. Control of these pipelines continued to give Russia leverage over transit of oil and gas from the region to market even after the end of the Soviet Union.

However, Western investments in oil and gas production also led directly to investments in new pipelines, which are not controlled by Russia's Transneft for oil and Gazprom for gas. These include the Caspian Pipeline Consortium, supported by international oil companies (led by Chevron), Kazakhstan, and Russia to bring crude oil from western Kazakhstan to the Russian Black Sea coast; the Baku-Supsa and Baku-Tbilisi-Ceyhan pipelines, supported by Western oil companies (led by BP) and Azerbaijan, that bring crude oil from Azerbaijan to respectively the Georgian Black Sea coast and the Turkish Mediterranean coast; and the South Caucasus Gas Pipeline

to bring natural gas from Azerbaijan through Georgia to Turkey, which is planned to be expanded and extended in the next phase of Shah Deniz gas field development across Turkey with a new trans-Anatolian pipeline to markets in southeast Europe.

These new pipelines have diminished Russian control of oil and gas exit out of Central Asia and the Caucasus and helped achieve the objectives from the 1990s of giving the region more economic options and allowing its oil and gas production to flow freely to world markets.

When the Soviet Union collapsed in 1991, China was just about to convert from a net oil exporter to net oil importer. It was slow off the mark in the race for Central Asian oil and gas. By the time it focused on this region, most of the large production opportunities have already been acquired by Western companies, e.g., Tengiz, Karachaganak, and eventually Kashagan in Kazakhstan and the Azeri-Chirag-Guneshli and Shah Deniz fields in Azerbaijan. From a Chinese point of view, they have been playing catch-up ever since.

Today China is the second largest oil importer in the world and an increasingly important importer of gas. With stagnant Chinese domestic production and rapidly growing energy demand, coupled with increasing unconventional oil and gas production in the U.S. and American conservation and substitution away from oil, China is destined to replace us as the world's largest oil importer in a decade.

Its companies have been investing in oil and gas around the world, including in neighboring Central Asia. Chinese companies now produce around 30% of Kazakhstan's oil, albeit from smaller fields than those operated by Western companies, and hold the only onshore concession in Turkmenistan.

Chinese policymakers appear to favor land-based pipelines as a hedge against overreliance on predominately maritime imports of oil and gas. In part because of disappointments in dealing with Russia on oil and gas, China has focused on pipeline development from Central Asia, including an oil pipeline from western Kazakhstan and gas pipelines from Turkmenistan through Uzbekistan and Kazakhstan to China. China has replaced Russia as the largest importer of Turkmen gas and this volume is slated to double or triple in the coming years.

The next growing source of competition for Central Asia oil and gas is likely to come from India, which follows closely China in growth in oil and gas demand and consequently oil and gas imports. Indeed, as Chinese demographic growth slows and population ages, India's energy demand is commonly forecasted to grow faster than China's in another decade or so.

Although it is better located than China to receive oil and gas from the Persian Gulf, India too would like to diversify its oil and gas imports to include Central Asian supply. This explains Oil and Natural Gas Corporation (ONGC) of India's recent forays into major projects in Azerbaijan and Kazakhstan as well as the interest of

Gas Authority of India Ltd (GAIL) in the Turkmenistan-Afghanistan-Pakistan-India (TAPI) Gas Pipeline.

These interests converge with long-standing American interest to promote diversity of pipeline routes out of Central Asia so that no single country can dominate oil and gas transit from the region. In the case of TAPI, it also coincides with our interests in the economic integration of Afghanistan into Central and South Asia, regional stability, and better relations between Pakistan and its neighbors.

With all due respect to the Committee, the concept of resource wars is often exaggerated. The investments I referred to in oil and gas production and pipeline development require tens of billion dollars and many years to mature.

For example, the Kashagan project has taken close to \$50 billion in investment after the field's initial discovery back in 2000, with commercial production only starting by the end of this year at a relatively modest rate of around 375,000 barrels of oil per day. Oil companies from the U.S., the Netherlands, France, Italy, Japan are partners in this project in addition to Kazakhstan. It is expected that China will join soon. Contractors from all over the world are working on this massive project. If it is taken to the next phase of development, the field is capable of producing over a million barrels per day, which will require additional tens of billion dollars in investment even before considering more pipeline capacity that will be needed.

Conflict generally freezes such large-scale investments and resources are then stranded for many years. It is true that there is resource competition in Central Asia, as is true around the world.

Our policy concern should be for such competition to be conducted on a rule-based manner, without political coercion or non-transparent business practices, to the disadvantage of the citizens of the host countries and global consumers. As long as the rules of competition are fair, our oil, oilfield services and equipment companies can compete in Central Asia, where they are doing rather well, and market competition will drive economic efficiency to the benefit of all.

It is too early to know whether Chinese oil companies and Indian parastatals will transform into international oil companies just as BP, Total, ENI, Statoil did with rather similar origins in state ownership and control. The example of Russia, where majority-state owned and controlled Rosneft and Gazprom dominate its oil and gas patch, suggests this development is not inevitable.

Observing the nature of resource competition and assessing its policy consequences will remain an important task for your Committee. In Central Asia itself, my humble opinion is control of water resources are more likely to lead to direct conflict than oil and gas.

Thank you for your attention.