

# Kazakhstan's energy policy: Its evolution and tendencies

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**Abstract:** As a young sovereign state, Kazakhstan tries to conduct policy that makes it an equal partner among other countries of the world community. Rich deposits of oil and natural gas in the country and the Caspian Sea attract the interests of energy consuming states. At the same time, the landlocked position and weak infrastructure lead a more active foreign policy based on the energy factor. This paper is an attempt to study the development of energy policy of Kazakhstan focusing on the country's relations with Russia, China, the USA and the European Union. The complex geopolitical environment and relatively small, young economy of Kazakhstan emerge as the main reasons for conducting multi-vector and balanced foreign policy. The author defines peculiarities and tendencies of possible future developments with respect to Kazakhstan's place in the energy sphere.

**Key words:** energy policy; geopolitical situation; Kazakhstan; Central Asia; oil and gas pipelines

## 1. Introduction

After the collapse of the Soviet Union, Kazakhstan has been conducting its own independent foreign policy, guided heavily by energy issues. From the beginning Kazakhstan's leadership has adhered to the multi-vector and balanced principles toward all countries in the international arena. Due to rich natural resources inside the borders and the Caspian Sea, three Central Asian republics (Kazakhstan, Uzbekistan and Turkmenistan) attract the attention of powerful and energy consuming states.

Even at the time of independence, it was obvious that Kazakhstan would lead its external policy based on hydrocarbon reserves because this country is estimated to have around 30 billion barrels ( $4.8 \times 10^9 \text{ m}^3$ ) of crude oil reserves, which places it the eleventh in the world (*Central Asia energy risks*, 2007). It ranks at the second place after Russia on this parameter among all former soviet republics.

Energy sphere was and remains as one of the basic factors that shape both internal and external policies of Kazakhstan, as well as those of other actors such as Russia and the European Union. During eighteen years of development as a sovereign state, Kazakhstan underwent several stages in the formation and implementation of its international energy policy.

## 2. The first stage: Primacy of Russia

In this first period Kazakhstan was closely connected to Russia. In the economic sphere both countries shared a common energy infrastructure that was constructed during Soviet period. The Atyrau-Samara pipeline was the only route through which Caspian oil could be transported abroad, to Europe. The Central Asia-Center (CAC) gas pipeline has been connecting with Turkmenistan, Uzbekistan, Kazakhstan, and Russia for 40 years.

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In 2001 the new oil Caspian Pipeline Consortium was launched. Although three states (Russia, Kazakhstan, and Oman) and eight companies divided the shares of the CPC, currently the largest belongs to Russia. Even today oil is transported to Russia by land pipelines, while transportation to Europe bypasses Russian territory by going through the Caspian Sea with tankers. The former way is cheaper and more effective. In addition, Kazakhstan has the only export route (CAC), which carries natural gas to the European part near to Russia. However, due to its landlocked position in the center of the continent, Kazakhstan always needs to rely on the good will of its neighbors for transporting oil and gas.

In the political sphere the two countries joined to the same organizations—the Shanghai Cooperation Organization (SCO), the Eurasian Economic Community (EAEC), and the Collective Security Treaty Organization (CSTO). The most effective organization in the energy field is the Eurasian Economic Community whose members, Belarus, Kazakhstan, Kyrgyzstan, Russia, and Tajikistan have committed themselves to adopting common policies on trade, migration, currency exchange, and infrastructure development. Gradually the EAEC members began to expand the overall mandate to form a single energy area, a single transport area, a gas alliance, a single securities stock market and a new Ruble zone (Gleason G, 2008). The Shanghai Cooperation Organization plans to form the Energy Club. The main aim of this club will be to coordinate efforts and exchange information in order to integrate countries into a common energy market connecting six states—China, Kazakhstan, Kyrgyzstan, Russia, and Uzbekistan which are the members of the SCO.

In cultural sphere there are two factors that get the mentioned countries closer. The first is historical and traditional roots. People can speak in one and the same language and there are no physiological barriers. Documents concerning business and administrative matters are conducted in Russian and use the Cyrillic alphabet. In addition, the Eurasian idea is strongly supported in both countries. In general, this idea assumes that the Russian and Nomad people have the same roots in their deep history. They believe that Russia, in spite of European borrowings, first of all means Asia (Paradowski R., 1999).

Second, Kazakhstan's seven oblasts (administrative districts) out of fourteen have a common border with Russia. Citizens of the two countries do not need a visa to cross the border, therefore, trade and cultural relations between them are strong and deep. Jos Boonstra (2008) underlines the possibility that the most powerful mechanism of Russian influence in Central Asia may be cultural because it reaches beyond the elites, which the EU, American and Chinese cooperation schemes largely lack. Through its cultural influence, Russia can positively advance its economic and security interests (Boonstra, 2008).

For Kazakhstan, Russia is an important partner in the political and economic fields. Energy is a sphere which demonstrates the interconnections and the interdependence between policy and economy. For both Russia and Kazakhstan, cooperation in the energy sphere is considered as the main feature of their foreign policy.

### **3. The second stage: The ascendancy of the United States of America**

The USA recognized Kazakhstan's sovereignty on December 25, 1991, after 10 days of the proclamation of independence. The dissolution of the USSR made Kazakhstan a de-facto nuclear state due to the existence of polygon near Semipalatinsk town and the possession of more than one thousand warheads and hundred of intercontinental ballistic missiles (Ipek P., 2007). After resolving this issue (by the signing of the Lisbon protocol through which four post-soviet republics—Russia, Kazakhstan, Ukraine, and Belarus—joined the Strategic Arms Reduction Treaty (SART) in May 1992) the U.S. administration turned its attention to the oil sector.

The first company that entered to Kazakhstan oil sector was American Chevron. With local Tengiz Company, they formed a joint venture Tengizchevroil and started to operate in April of 1993. The Tengiz oil-field is the largest oil discovery in the world since the 1970s, with proven high-quality oil reserves of 6-9bn barrels—to be developed, according to the contract, over a 40-year period (Forsythe, 1999).

However, the USA began to take a more active policy position from the end of 1990s and the beginning of 2000s. It was linked to the aim of USA to weaken the geopolitical influence of Russia and become more independent in the transportation of oil and gas. Russia's parliament (Duma) refused to ratify the Energy Charter Treaty; consequently, the foreign firms were not allowed to access the transportation infrastructure in the Russian territory. Therefore, the USA and the EU agreed to construct a new pipeline bypassing the Russian Federation, which was more a political decision than economic. The well-known American scholar, a specialist on Eurasia, Ariel Cohen, stated "we need to encourage Central Asian governments to work with us as well as with the EU and the government of India to diversify away from current fossil fuel resources in the Middle East as well as away from Russian monopoly, especially in the gas area" (Cohen, 2006). "We strongly support the work of USA energy companies and their international partners, who are now focused on ramping up production and improving transportation to markets. USA energy companies are among the first non-CIS foreign investors in Kazakhstan, and we expect American companies to be active in the region for many years to come" (Mann S., 2006).

Although the BTC was not economically effective because the transportation took place through the troubled areas of Caucasus (Nagorny Karabachos & Georgia), after a series of negotiations, Kazakhstan decided to join this western oil pipeline in June of 2006. Baku-Tbilisi-Ceyhan was the first route that would avoid the Russian territory and diversified oil export on one hand. On the other hand, Kazakhstan needed the support of the United States in geopolitical terms and definitely it needed the foreign investments. The USA invested the essential amount of direct investment into the Republic of Kazakhstan. American direct investments in the Kazakh was total up to USD 13.8 billions in the period from 1991 to 2007, which is about 30% of all the direct foreign investments to Kazakhstan (Kazakhstan Foreign Ministry Press Service, 2007).

#### **4. The third stage: The entry of the Chinese People's Republic**

China is a relatively new actor in Central Asia. In 1980s China was the main exporter of hydrocarbon in the East Asia region. But since 1993 the Chinese People's Republic has been an importer of oil and gas (Korzhanevskii N., 2005). Nowadays China is the second consumer of energy in the world, right after the United States.

It is generally considered that there are two levels to the Kazakhstan-Chinese relationship. The first is the bilateral level and the second concerns the relations within the frame of the Shanghai Cooperation Organization.

Until recent years, the West and the European markets played a more important role in the energy trade for Kazakhstan as well as Russia. However, the eastern direction is gradually becoming the main export route in the RK. China on its own part also has been paying more attention to the south-eastern neighbors. For the majority of Chinese strategists, China's main international arena is the Asia-Pacific region. For a long time China has been focusing on the security and development of the southeastern area and coastland of China (Ly Gang, 2005).

The first step was undertaken in June 1997, when Chinese National Petroleum Company acquired a 60.3% stake in AktobeMunaiGas. Recently CNPC has celebrated the 10th anniversary of its activity in Kazakhstan. On May 29, 2007, Mr. CHEN De-ming, Vice Chairman of National Development and Reform Commission (NDRC),

paid a two-day visit to CNPC Aktobe Munai Gas in Kazakhstan, accompanied by CNPC vice-president ZHOU Ji-ping. During his visit, Mr. CHEN visited the operation site of the oilfield, the construction site of the Third Zhanazhol Oil and Gas Processing Plant, the Emba-Zhanazhol railway sponsored by CNPC and the initial station of the KC-13 Gas Pipeline (China National Petroleum Company, 2007).

In spite of the widespread opinion that China has an expansion policy in Central Asia, Chinese scholars are convinced that China “has very limited national interests as a great power outsider in the Caspian region. It has no intention but normal commercial consideration” (LY Gang, 2005).

Among five Central Asian states only Kazakhstan exports hydrocarbon to China. In 2004, China imported nearly 2.4 million b/d of crude oil, of which 45 percent came from the Middle East, while the share of Central Asia was only 1 percent. Dr. WU Kang writes that, compared to the Middle East, the role of Central Asia in China's overall oil and energy supply will still be rather insignificant in the foreseeable future (WU Kang, 2007).

In May of 2005, CNPC reached an agreement on the purchase of Petro Kazakhstan from Canadian Company for \$4.18 billion (Neftianye Vedomosti, 2005). This deal was the most expensive in the energy sector and demonstrated the serious strategic intention of the CPR toward Kazakhstan and Central Asia as a whole.

In 2004 during an official visit to China president, N. Nazarbayev signed an agreement on the construction of the pipeline Atasu-Alashankou. On December 15, 2005, it took place the ceremony for the opening of the first sector of this oil pipeline with a capacity of 20 million tonnes per year. Therefore, Kazakhstan is approaching its main goal of diversifying transit routes and attracting more foreign investments. While Baku-Tbilisi-Ceyhan passes through the territory of three separate countries and requires the transportation of oil through the Caspian Sea from port Aktau to port Baku with tankers, Atasu-Alashankou will go across the territory of one single country, Kazakhstan. Also this project does not have to go through conflict areas such as Nagorno-Karabachos or Turkish south-eastern districts.

The disadvantage of Atasu-Alashankou for Kazakhstan is that it will be terminated on the Chinese border. Kazakhstan government would like to be involved in transporting oil to the eastern coast of China and further to the markets in South-Eastern Asia. On China's part, the main disadvantage is the long distance from Xinjiang in the north-west to the industrial consuming districts of China.

(However) Overall the CPR conducts an intensive and productive foreign policy towards the Central Asian region. China's president HU Jin-tao declared that the purpose of his visit to Kazakhstan on August 18, 2007, was to establish “pragmatic cooperation”. Astana and Beijing agreed on the construction of a second section of an oil pipeline from Kazakhstan to China, and a gas pipeline to transit Kazakhstan, taking Turkmen gas to China.

This project will link the pipeline systems of Kazakhstan, Russia and China and become a new basis for cooperation between the three countries, thus strengthening their positions in Eurasia and within the framework of the Shanghai Cooperation Organization (Laumulin, M., 2007).

At the level of regional organization, Kazakhstan and China collaborate within the framework of the Shanghai Cooperation Organization. In 2006 the members of the SCO announced the formation of the Energy Club within the SCO. This initiative has yet an ambiguous position. The member-states, especially Tajikistan and Kyrgyzstan, expect an improvement of their economic situation. Deputy technical engineer of the Open Stock Holding Company Barki Tojik (Tajik electric power), Rashid Gulov, said that the idea of creating the SCO's Energy club is beneficial for Tajikistan's economic interests. He mentioned that the SCO member countries, particularly, Russia, Kazakhstan, and Uzbekistan possess vast energy resources and hydrocarbon fuel. On the other hand, Tajikistan and Kyrgyzstan have immense hydroelectric energy resources that, if they are jointly

explored and rationally used, could tangibly improve the energy security of all the countries in the region. “If all the SCO member countries and those who are willing to join it—Iran, Pakistan, and India—join their efforts to create the SCO energy commonwealth, this could become the world’s most powerful energy alliance. And this commonwealth most likely to be regarded as an alternative to OPEC”, Gulov suggested (*SCO's energy club will become the OPEC alternative*, 2006).

Kazakhstan, as the initiator of any integration processes in Central Asia, strongly supports this diplomatic initiative. “There is a necessity within the framework of SCO to Kazakhstan to continue study of energy policy by consecutive negotiations with all state-participants of SCO. Idea of creating energy club of SCO countries is one of key projects, where Kazakhstan’s role in the near future can essentially increase. Energy policy becomes the main expression of multiplicity principle” (Sheryazdanova K., 2008).

In contrast, this idea was met with a skeptic attitude from American and European scholars and politicians. A. Matusov wrote: “However, events suggest that a multilateral agreement that integrates energy policy throughout the entire region is a difficult proposition, and that the agreements which have emerged are not products of the SCO, even if they are influenced by the SCO process. This is primarily due to the fact that when it comes to energy issues and economic issues in general, agreements between SCO member states often either reached outside of the SCO framework, or bilaterally, meaning it is quite conceivable that these deals would have been signed even if the SCO did not exist” (Matusov, 2007). In addition, many authors share the opinion that China and Russia are becoming competitors in Central Asia more than being partners (Blagov, 2007; Marat & Murzakulova, 2007).

Nevertheless, a rapid developing China is considered as a key actor in the region and has great ambitious plans together with Russia in the energy sphere as well as in policy and security. The well-known scholar of Kazakhstan, K. Syroezhkin, remarks that China will not be able to conduct its policy in the sphere of energy and national security alone. Chinese political establishment operates together with its allies; among them are Russia and big European actors: France and Germany (Syroezhkin K., 2004).

## **5. The fourth stage: The European Union**

Growing misbalance between demand and supply during the last years, on one hand, it is the reduction in the deposits of oil, natural gas and coal; on the other hand, it requires the common strives of different countries to provide a united policy of energy security. The European Union has more concerns about energy security in comparison to the United States. In my point of view, there are three reasons for this: First, the enlargement in 2004 and 2007 was very wide and led to the accession of 12 new states that are not rich in energy resources. Second, the EU does not possess important deposits on its territory. The existing fields in the North Sea, in Norway and Great Britain passed their peak of oil and natural gas extraction. Third, recent disputes between Ukraine and Russia in winters of 2006 and 2009 demonstrated the possibility of Russia cutting off gas supply to Europe and using energy as a tool for achieving its political goals.

The EU develops new approaches towards the creation of energy infrastructure in the Eurasian territory. It adopted a lot of documents during the 2006-2008 period: Green Paper “A European strategy for sustainable, competitive and secure energy”, “External energy relations—From principles to action”, “Action plan for the period 2007-2009”, in 2006 the Memorandum of Understanding with Kazakhstan, “The EU and central Asia: Strategy for a new partnership” and others, which will create new types of relations. Kazakhstan like other Central

Asian countries takes its own particular place in the new European energy policy.

Kazakhstan's relations with the countries of EU rest on a framework of agreements, the most important of which is the Partnership of Cooperation Agreement (PCA) signed in January of 1995 and activated on January 1, 1999. In addition, Kazakhstan signed a number of bilateral agreements for political, economic, and cultural cooperation with Germany, the United Kingdom, France, Italy, and others. The EU assisted Kazakhstan and other Central Asian countries with the programs of the Interstate Oil and Gas Transport to Europe (INOGATE) and the Transport Corridor Europe-Caucasus-Asia (TRACECA). TACIS was one of the first programs that provided technical assistance to the post-Soviet countries.

However, the European Union paid relatively less attention to the Central Asian region until 2007. Due to the disputes between Russia and Ukraine in 2006, Russia and Byelorussia in 2007, the EU began to seek alternative sources of energy. Caspian countries formed one such group that would provide additional sources of hydrocarbons.

Cornell and Nilsson (2008) recommended the EU to undertake several measures to support the Caspian region's development and improve EU's access to its resources. These include supporting the development of energy and trade infrastructure, granting easier entry to the EU for the region's products, and crafting active investment policies in the region.

At the same time, the implementation of the European strategy faces some serious obstacles. Other states, first of all, Russia and China have stronger positions in Central Asia. However, Kazakhstan's political leaders make attempts to keep a balance between Russia and China. Still, the European Union has some advantages in its relationship with Kazakhstan.

First, the EU is able to offer essential foreign investments and programs. The activities of both TRACECA and INOGATE are related to the broader EU goal—the strong promotion of accession to and implementation of the Energy Charter, an international agreement designed to create a regime regulating global energy-sector investments and trade that would ensure fair access and smooth transactions in this critical sector of the world-wide economy. The strategic purpose of this program is clear and fairly narrow: To ensure that the development of the Caspian Basin's energy reserves serves European interests. It is important to note that the Energy Charter was the first international document that was signed by Kazakhstan in December of 1991 immediately after the proclamation of independence. In contrast, Russia cannot invest in Kazakhstan's economy since it needs a great sum of investments for improving its energy infrastructure.

While the decline in Russia's oil production has leveled off, the oil sector remains in need of significant capital injection and changes to its regulatory environment. If these do not occur, the output decline could resume. Investment capital is needed both for maintaining and increasing output from existing fields and for developing new ones (International Energy Agency, 1998).

The European Union invested 1.3 billion Euros from 1991 to 2006. The new strategy declared that in order to reflect greater EU engagement in the region, the EC assistance budget to Central Asia will be significantly increased under the new financial perspectives of 2007-2013 to a total of 750 million. Euros, with the average annual allocation to the region under the development cooperation instrument increased from 58 million in 2007 to 139 million in 2013 (*"The EU and Central Asia: Strategy for a New Partnership"* Council of the European Union, 2007).

The second positive feature is the approval of Kazakhstan's presidency of the OSCE in 2010 by the EU and the USA.

Kazakhstan, due to a set of objective and subjective factors, became the first state chairing the OSCE among the former Soviet countries and among the Asian members of the OSCE. “On one hand, world political vector is inevitably shifted to Asia, where there are big stocks of hydrocarbon raw materials and where two third population of the planet live and whence roots of the European security grow; On the other hand, Kazakhstan, taking account a geopolitical situation on the length of the borders and universal tendencies, more actively joins the process of formation of regional and world politics” (Lukpanova, 2008). Taking into account the future presidency of the Organization for Security and Cooperation in Europe in 2010, Kazakhstan will draw more attention to the maintenance of relationships with the European countries and will follow the national interests of both sides.

The third point is related to the support that Kazakhstan will get in the process of entering the WTO on acceptable terms. Observing the economic and social situations in neighboring Kyrgyzstan and Armenia, the population of Kazakhstan has no optimistic expectation from the future membership in the WTO.

Political scientist Maksat Ramazanov said that local enterprises would be hit hard if Kazakhstan joins the free trade body at such a fast pace. “Small and medium businesses, described by president Nursultan Nazarbaev as the most important in the development of the economy, will suffer first of all” said Ramazanov. “Kazak entrepreneurs, who are just beginning to build their businesses, will not yet be in a competitive position against producers from WTO member states” (Kuanov & Amirbekova, 2002).

The official position of Kazakhstan on this subject is clear and has been repeatedly expressed: The republic will demand a number of conditions in order to defend its own interests while joining the World Trade Organization. In particular, Galym Orazbakov, vice minister of Economy and Trade, recently stated that the country would join the WTO on “just terms” with all other members. According to him, Kazakhstan would insist on a right for a transition period of five to seven years, during which it would be able to bring its obligations in compliance with the WTO requirements. Besides, since the republic is a developing country, when it joins the WTO, it will need agricultural support, which has to be agreed upon in the future (Antsipherov, 2002).

The support of small and medium businesses in Kazakhstan is especially significant in the context of a financial crisis, when the entrepreneurs in various spheres (services, trade and manufacturing) that have credits from the banks suffer most of all.

Also, the European Union serves as the modern model of successful integration.

In spite of the common Soviet past and geographical closeness, five Central Asian republics—Uzbekistan, Kazakhstan, Kyrgyzstan, Tajikistan, and Turkmenistan—have little experience with the integration process. During the eighteen years on the independent road of development, these countries adopted a number of agreements and declarations. However, many of them just stayed on paper and were not implemented by the executive bodies. Moreover, each of the Central Asian countries follows its own internal and external policy, differing from the others. The issues regarding ways of integration were considered at the international conference. “Possibilities for integration in Central Asian Region and experience of the European Union” that was held in Kazakhstan Institute of Strategic studies in Almaty on December 8, 2006.

The EU state-members have rich experiences in the formation of regional organizations. They have developed elaborate common strategies in different spheres and have used a universal mechanism of making decisions and carrying them out despite the variety of 27 states.

Further, as Nargis Kassenova wrote, taking into account the pro-European sentiments in Kazakhstan who promote the country's advanced economic development, it makes itself among the most promising in the region, not only for cooperation with the EU, but also as a possible candidate for the European Neighbourhood Policy

(Kassenova, 2008).

In the West, scholars' perceptions of Kazakhstan have resisted an embrace of the EU regulatory and market norms since Kazakhstan has no prospect of a place in the European Neighborhood Policy. President Nazarbayev's "multi-vector" foreign policy has recently led him into new strategic, long-term bilateral deals with Russia (Youngs, 2007).

## 6. Conclusion

Kazakhstan possesses huge hydrocarbon resources inside its territory and in particular in the coast of the Caspian Sea, which is equal to 33% of the whole coastline of this sea. After Russia Kazakhstan takes the second place in oil and gas resources among former Soviet states. This is why energy is the most important factor in Kazakhstan's external policy.

Due to its complex geopolitical position and the development of the so-called Great Game among powerful countries like the USA, Russia, China, and the EU, Kazakhstan strives to achieve a balance and advantage from this situation. Moreover, the transportation of blue fuel from Turkmenistan either to Russia and Europe or China needs the routes through the territory of Kazakhstan.

In the first period, relations were mostly bilateral between Kazakhstan and Russia, and between Kazakhstan and the USA. The next stage may be considered as the regional level. Kazakhstan became the active player in the SCO. Also it should be noticed that the US State department declared the new Great Central Asia project. It means that the significance of the region is increasing. The last, current stage concerns the strategic plan of Kazakhstan. President Nursultan Nazarbayev (Nazarbayev, 2006) assigned the prospective goal for the state to be among the top 50 most competitive world countries. Therefore, relations of Kazakhstan with the United States and the EU will be promoted in order to reach this ambitious goal.

In the future, it is obvious that Kazakhstan will follow the multi-vector energy policy. On one hand, Russia and Kazakhstan are exporters of energy and in general share common views on the energy policy. This distinguishes Russia from other players like the USA, the European Union and China that represent consumer countries. On the other hand, Kazakhstan has shown that it does intend to conduct a more independent foreign course, and seeks to be a more equal partner in the Western or Chinese business relationships.

Also, the energy sector forms a large part of the revenues in the state's budget. Kazakhstan's 2003 oil exports were valued at more than \$7 billion, representing 65% of overall exports and 24% of the GDP (Wikipedia, 2006). Undeveloped domestic small and medium businesses and the one-side oriented economy make the government rely on energy trade and try to support all transit routes while they guarantee increasing income. Therefore, not only geopolitical imperatives, but also economic reasons lay in the basis of multi vector (or multi dimensioned) energy policy.

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(Edited by Amanda and Jennifer)