IMPLICATIONS OF THE BAKU-TBILISI-CEYHAN MAIN OIL PIPELINE PROJECT

Tuncay BABALI*

Abstract

In this article, I will try to define and explain the course of events that led to the realization of the BTC pipeline. What is important about this project is that the political objectives and resolve of the United States and Turkey were the main driving force behind this project. By explaining the stages of the project, I intend to bring more definitive substance to my main hypotheses: political factors are dominant in the region and at least as important as economics in determining which pipeline is to be built. Finally, I would like to delve upon the implications of the BTC main oil pipeline to the economies of the countries and hydrocarbon resource market of the Caspian Basin and beyond.

Keywords

Caspian Energy, Pipelines in Eurasia, Energy Security and Diplomacy, Turkey's Energy Policy, Export Routes

Baku-Tbilisi-Ceyhan (BTC) Main Oil Pipeline Project

This project aims at the transportation of crude oil produced in the Caspian Basin, in places such as Azerbaijan and Kazakhstan, by a pipeline to a marine terminal on the Mediterranean coast of Turkey in Ceyhan and

* Tuncay Babalı, Ph.D., Deputy Chief of Cabinet to the President of the Republic of Turkey. Views expressed here solely represent the author's own opinions and assessments.

then to the world markets by tankers. Using World Bank Credit, the Feasibility Study, Environmental Impact Assessment Study and Detailed Route Study for this project were completed in 1998. The pipeline will have an approximate length of 1,100 miles (1,770 km) and will cost an estimated $ 3.6 billion (See Figure 1). Seventy percent of the project (about $2.6 billion) will be funded by credit. It was initially planned to be completed in 2005, however due to some delays the first oil is expected to flow through it in the second half of 2006. The pipeline will have a capacity of one million barrels per day.

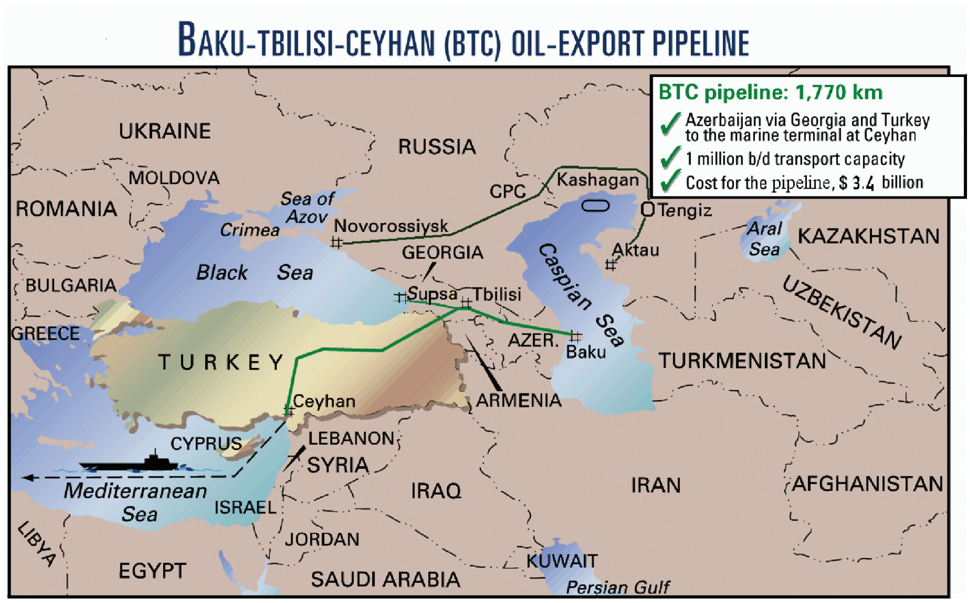

Figure 1.

Source: Adopted & redrawn from Oil&Gas Journal, 14 January 2002 & The Economist, 25 May 2005.

What brought this project to fruition?

On 20 September 1994, in Baku, a group of foreign oil companies led by the British Petroleum Company (BP) signed an $8 billion production-sharing deal with the Azerbaijani state oil company, SOCAR (State Oil Company of the Azerbaijan Republic). The 30-year contract called for production of

80,000 barrels per day (b/d) by 1997; output was expected to reach an eventual peak of 800,000 b/d. The contract provided for the development of the Azeri, Chirag and Guneshli offshore oil fields in the Caspian Sea, which are estimated to contain reserves of 5.4 billion barrels. Other investors in the 'contract of the century' - as it is commonly known - originally included American Amoco (17%), Pennzoil (4.8%), Unocal (9.5%) and Exxon (5%), Russia's Lukoil (10%), Norway's Statoil (8.5%), Japanese Itochu (7.45%), the British Ramco (2%), Turkey's TPAO (6.75%), Saudi Arabia's Delta (1.6%) and Azerbaijan's SOCAR (10%).[1]

Conflicting perceptions and interests on the way of the realization process

The negotiations between Azerbaijani authorities and Western oil companies date back to 1990, when Azerbaijan was still a Soviet republic.[2] These negotiations finally seemed to bear fruit in 1993, and SOCAR was expected to sign a contract with a group of foreign oil companies, which did not then include the Russian or Iranian oil companies, in September 1993. It is widely believed that, the anti-Russian policies of the pro-Turkish president of Azerbaijan, Abulfaz Elchibey, were the cause of a coup, which overthrew him in June 1993. Heidar Aliev, former Soviet Politburo member and head of the Azeri KGB, grabbed power during the post-coup weeks from the decidedly pro-Russian leader of the coup, Suret Huseinov. Aliev then, renegotiated the contract with the Azerbaijan International Operating Company (AIOC) and allocated the Russian oil company Lukoil 10% of the AIOC; thus hoping that Moscow would be more favorably disposed to the idea of Azerbaijan's independently exploiting and marketing its Caspian Sea oil resources.

The early response of the Russian government to the project was a reflection of the conflicting goals that the Russians have in the region. One

[1] Sabit Bagirov, 'Azerbaijani Oil: Glimpses of A Long History', Perceptions (Ankara), 1, 2, June-August 1996; *Middle East Economic Digest* (hereafter MEED), 30 September 1994, p. 42.
[2] Bagirov, p. 35.

major goal is for Russia to maintain its sphere of influence in the region, and the then Foreign Minister, Andrei Kozyrev, and the future foreign minister, Evgenii Primakov, convinced Yeltsin on July 21, 1994 to sign a secret memorandum regarding the protection of Russian interests in the Caspian.[3] Accordingly, this aim views the development and export of oil as a zero-sum game, and is staunchly against the involvement of 'outsiders' like Turkey, the United States and others in Russia's backyard.

Iran, for its part, pursued a policy that could be characterized as ambiguous. Although Tehran had adopted a hostile stance toward Azerbaijan's pro-Turkish President Elchibey, it became more accommodating toward Aliev, who replaced Elchibey after the June 1993 coup d'état. Interested in currying favor with Tehran, Aliev repeatedly stated that Baku intended to have mutually beneficial relations with Tehran based on cooperation in the fields of oil production and marketing. True to his word, on 12 November 1994 Aliev transferred 5% out of SOCAR's 20% share in the AIOC to Iran.[4] Yet, facing objections from the U.S. administration, the AIOC turned down this transfer; thus sabotaging Aliev's effort to buy Tehran's support against Russian projection of a big-power role in Caspian issues.[5]

In many instances, during these early days of the project, Turkish statesmen repeatedly and openly accused Russia of acting as a neo-colonialist power. On 29 August 1995 then-President Demirel stated, "'For the sake of good relations [with Russia], these [Turkic] countries should not give away concessions from their independence. ... Our brother countries must have direct access to the world markets without obstacles ... It is to their strategic, political and economic benefit to get rid of any dependency ... Turkey's approach on the oil and natural gas pipelines should be evaluated in this context."[6]

The 'contract of the century' reinforced antagonisms between Ankara and Moscow, because, since then, two basic routes have been in competition,

[3] Robert V. Barylski, 'Russia, The West, and the Caspian Energy Hub', *The Middle East Journal,* 49, 2, Spring 1995.
[4] *Middle East Economic* Digest (hereafter MEED). 25 November 1994, p. 28.
[5] *MEED*, 17 February 1995, p. 30.
[6] *Turkish Probe*, 1 September 1995, p. 5.

promoted respectively by these two states. Both parties have presented their pipeline option as the panacea, which would enable Azerbaijan as well as Kazakhstan to export their oil.

The Russian route would consist of two legs. One requires construction of a 1500-kilometer $1.8 billion pipeline from the Kazakh Tengiz fields through Tihoretsk (120 km east of Novorossiysk) to the Russian Black Sea port of Novorossiysk. This pipeline, which would have a 600,000 b/d capacity, would join the existing 1400-kilometer Baku-Tihoretsk pipeline which could carry the Azeri oil from the Caspian Sea.

The Turks, believing that a single Russian pipeline to carry Azeri and Kazakh crude would solidify Moscow's stranglehold over the region, campaigned actively against it. The idea that the Turkish pipeline would earn Turkey hard currency in royalties was, perhaps, secondary to its geopolitical calculation that, if the Azeris and Kazakhs had to rely solely on the Russian pipeline, Ankara's hopes for improved ties with the newly-independent Turkic states in the region would be drastically disturbed.

The 'early oil' controversy

Notwithstanding the Turco-Russian rivalry over the oil pipelines, the AIOC postponed its decision on the major export route until the second half of 1998. Yet in 1995, it had to determine how the so-called 'early oil' from the Caspian - up to 80,000 b/d expected to flow by late 1996 - would be transported. The output would gradually rise to 700.000 b/d by 2010, but until the early 2000s the 'early' oil would continue to be in much smaller quantities.

Since September 1994, Ankara has campaigned vigorously to convince the AIOC and the Azerbaijani government that the Baku-Ceyhan line is the most economically and politically sound option. It would be less costly for the AIOC to transfer crude oil to the Mediterranean, and the Azeris would also have significantly reduced their dependency on Russia. Yet to be successfully completed, the pipeline has to pass through Iranian, Armenian or Georgian territory.

The U.S. administration's objection to Iranian involvement based on political reasons automatically eliminated the Iranian option.[7] The ongoing ethnic hostilities around Nagorno-Karabakh at that time, between the Azeris and the Armenians, made Armenian participation anathema to the Azeris. For historical reasons, such as the so-called Armenian genocide allegations and lack of diplomatic relations with Turkey, mainly because of the genocide allegations and failure to recognize Turkey's eastern borders, to date, Armenia has been left out of BTC project, when it might otherwise have been included.[8]

As a result of these political controversies, Turkey was left with Georgia to serve as a transit route for the Baku-Ceyhan pipeline. When the AIOC began its deliberations regarding the route for the early oil, Ankara began a dedicated lobbying effort to convince the AIOC to accept the 926-kilometer Baku-Supsa route. There already was a Soviet-era pipeline in place which needed another 140 kilometers of pipe to become operational. The Turks expected that if the Georgian route were accepted for early oil, in the long run Turkey could construct a pipeline from Georgia to Ceyhan to serve as the major pipeline to export a significant portion of Azeri crude oil.[9]

Russia, for its part, tried to promote another Soviet-era pipeline running from Baku to Novorossiysk by suggesting that, of the 1400-kilometer route, only 27 kilometers required construction of a new pipeline.[10] Although neither pipeline presented a meaningful advantage over the other for the limited amounts of early oil (4-5 million tons annually), Moscow may also have counted on its increasingly high-profile role as one of the three co-chairmen of the OSCE Minsk group mediating the Nagorno-Karabakh dispute between

[7] BP has 17.2% of the shares. Turkey's share of 1.75% was increased to 6.75% in April 1995 when Azerbaijan transferred 5% of its shares. The Japanese Itochu bought American McDermott's 2.45% and Pennzoil's 5%. Sabit Bagirov, 'Azerbaijani Oil: Glimpses of A Long History', *Perceptions* (Ankara), 1, 2, June-August 1996, p. 42.
[8] Because of the same political reasons, Armenia has also been excluded from the Baku-Tbilisi-Erzurum gas pipeline project, which was born after the discovery of huge gas reserves in Azeri field of Shah Deniz in May 1999.
[9] *Interfax*, 24 October 1994; *FBIS-CEU,* 25 October 1994, p. 65. The Georgians claimed that the existing pipeline from Baku to Supsa could be upgraded to carry 80,000-140,000 b/d from the current 20 000-40 000 b/d. *MEED,* 28 April 1995, p. 3; *MEED,* 20 October 1995, p. 31; *Turkish Probe,* 17 May 1996, p. 19, 20.
[10] *Middle East Economic Digest* (hereafter MEED),MEED, 20 October 1997, p. 31. MEED, 17 February 1995, p. 30; *Middle East Economic Survey* (hereafter MEES), 13 February 1995, p. 11.

Armenians and Azeris.[11] Russia's military presence in Armenia and Georgia, its reservations concerning the legality of the AIOC contract, and in general, the heavy-handed Russian diplomacy in the “near abroad” influenced the AIOC and the Azeris to take into account not only economic but also political factors. As Ilham Aliev, then vice-president of SOCAR (current President and son of President Aliev), pointed out, 'the question of selecting an oil transport route was a political and not an economic decision for Azerbaijan'.[12] It would be wrong to exclude economic factors entirely, nonetheless, for all parties, the BTC project was always a politically motivated project. The economic viability of the pipeline, as will be discussed later, was an issue that has been addressed in the very late stages of the project.

Eventually, on October 9, 1995, the AIOC opted for a compromise scheme, under conflicting pressures from Russia and Turkey, by announcing that the early oil would be exported through two pipelines, via Georgia and Russia.[13] Many who took part in the AIOC decision-making process admitted that the choice of two pipelines was aimed at preventing a Russian stranglehold over Azeri oil exports. The United States, for its part, actively lobbied the AIOC and the Azerbaijani leadership to agree to the two-pipeline formula. In early October 1995 President Clinton held a long telephone conversation with Azeri President Aliev in order to assure him that the United States believed that the two-pipeline option was best for Azerbaijan.[14] The idea appealed to the Azeris, who did not want to be dependent on Russia for access to world markets and yet, at the same time, did not want to antagonize Moscow by refusing to approve any role of Russia in the contract of the century.

In addition, the inability of both the Russian state and pipeline authorities to resolve the Chechen issue vindicated the AIOC's decision to pursue a dual pipeline strategy for its early oil exports. The only factor which could throw

[11] *Azeri Turan News Agency*, 6 December 1994, in *FBIS-CEU*, 7 December 1994, p. 55.
[12] *Gunay* (Baku, in Russian), 3 June 1995, p. 2, in *FBIS-CEU*, 9 June 1995, p. 86.
[13] *MEED*, 20 October 1995, p. 31.
[14] *Ibid.; The Washington Post*, 10 October 1995; *MEED*, 20 October 1995, p. 19; *Turkish Probe,* 17 May 1996, pp. 19-20.

this prospect into doubt would be a return to major political conflict in Georgia or in Azerbaijan's Armenian-populated region of Nagorno-Karabakh, which is close to the route of the Georgian line.

The AIOC's decision led the Turks to think that they had scored a victory against Russia's attempts to shut off others, like Iran from the oil export process and to dominate the region economically and politically. Yet Turkish euphoria proved to be premature. When lobbying for the Georgian route, Ankara had promised to finance the upgrade and extension of the Baku-Supsa pipeline by offering preferential credit with an eight-and-a-half year term and two-and-a-half year grace period at an annual interest rate of around 7.25%. This very advantageous offer would have been backed by the Turkish Treasury guarantee against possible delays due to any political reasons. Ankara also offered to buy all of the early oil, estimated to be 4 to 5 million tons annually.[15] The Turkish offer came, however, with a number of conditions attached. Ankara insisted that:

• the pipeline consortium should be dominated by Turkey (51% of shares belonging to the country);

• the long-term route should be recognized by the AIOC as Baku-Ceyhan;

• there should be an upper limit of 6 million tons on the pipeline's annual capacity.

This last condition indicated that the Turks were worried that if the Georgian pipeline had a larger capacity it could be recognized as the main export pipeline in the long run, and the Baku-Ceyhan route could become obsolete while yet in the planning stage.

On February 27, 1996, the AIOC refused the Turkish conditions for financing the pipeline, mainly because it did not want to make a commitment for the main export route earlier than it desired. Instead, the AIOC

[15] *MEED*, 20 October 1995, p. 31; *Turkish Probe,* 17 May 1996, p. 19, 20.

announced that it was inviting fresh bids from all interested parties for the financing of the Baku-Supsa project.[16] Faced with the rejection of its offer, Turkey abandoned its support for the Baku-Supsa route. One other factor influencing the Turkish decision was the signing of an agreement by Russia and Kazakhstan in April 1996 for the construction of an oil pipeline from the Tengiz field to Novorossiysk, which was later to be known as CPC pipeline. This pipeline with huge investments from American energy conglomerates such as Chevron would increase Novorossiysk's capacity tremendously, hence possibly swaying Baku to think that it could also accommodate Azerbaijan's long-term export needs.[17] Announcing Ankara's cancellation of its support for the Baku-Supsa route, the Turkish Foreign Ministry spokesman stated that Ankara would henceforth strive to reach an agreement with Georgia and Azerbaijan for a whole new pipeline, Baku-Tbilisi-Ceyhan -BTC, to serve as the only main export route for Caspian oil. The Turks hoped that this would accommodate both Azeri and Kazakh export needs.[18] According to the official Turkish position, the BTC pipeline could also incorporate an eastern extension running to Kazakhstan, thus drawing in the oil and gas supplies from the lucrative fields in that country. Apart from geopolitical reasons, discussed above, the Baku-Ceyhan route offers several commercial advantages against Baku-Supsa route. These advantages further clarify as to why BTC was better for Turkey and for the region than Baku-Supsa route. First of all, the BTC pipeline would avoid expansion of tanker traffic through the overcrowded Turkish Straits. The Novorossiysk and Supsa routes require that tankers transport Azerbaijani oil exports through the Straits in order to access the Mediterranean and, hence, the Western markets. But the BTC option would avoid the Black Sea and the Turkish Straits altogether. Secondly, the BTC route would offer greater political stability, although the possibility of a threat of Kurdish terrorism as it was during the 1990s, does not make Turkey an automatic safe-haven. Nevertheless, oil companies have been lukewarm towards the BTC route because due to its enormous cost. Traversing roughly 1,040 miles through mountainous territory, construction of this pipeline would incur an initial price tag of $2.9

[16] *Turkish Probe*, 17 May 1996, pp. 19, 20; MEED, 24 May 1996, p. 23.
[17] *Turkish Probe*, 17 May 1996, pp. 19-20.
[18] *Ibid.;* 'The Politics of Oil in the Caucasus and Central Asia', *Adelphi Paper,* No. 300, 1996, p. 37.

billion, exceeding substantially the cost of any likely alternatives. Eventually, all construction work on the Baku-Supsa pipeline itself has been completed in May 1999 and the new Baku-Supsa pipeline was pumping oil at its full capacity of 115,000 barrels per day in early June of the same year.

Breakthrough

One of the most decisive steps to boost the project was taken in 1998, when a feasibility study and an environmental audit for transporting crude oil from Caspian Region to the Mediterranean Sea was carried out by an international German-based engineering company, Pipeline Engineering GmbH - PLE, through a loan provided by the World Bank. The results of the study manifested were the first evidence to persuade the AIOC members producing the oil from the Azeri-Chirag-Gunashli fields of Azerbaijan to think seriously about the Azerbaijan-Georgia-Turkey route as a way to the Western markets. Later, negotiations were held between the working groups of Turkey and Azerbaijan, representatives of the Azeri government, and various oil companies, at which time important project agreements were reached, including the Intergovernmental Agreement (IGA), the Host Government Agreement (HGA), the Turnkey Agreement (TA) and the Governmental Guarantee Agreement (GG). The Host Government Agreement, the Governmental Guarantee Agreement and the Turnkey Agreement were initialed and amended as annexes to the IGA.[19] While the 'Government Guarantee' was given by the Turkish Treasury, the 'Turnkey Agreement' was signed with BOTAŞ for the construction of the Turkish section of the BTC pipeline.

Although the United States declared its support for the BTC pipeline, immediately after the Turkish government's announcement of the proposed project, it was not until 1998 that this support had a direct impact on all sides involved in the decision-making process. It was U.S. Ambassador Richard

[19] From the presentation given by Dr. Yurdakul Yigitguden, Undersecretary of the Ministry of Energy and Natural Resources of the Republic of Turkey, on the occasion of Wilton Park Conference on the subject of Political and Economic Prospects in the Caspian Sea Region on March 6-10, 2000 in London.

Morningstar, Special Advisor to the President and Secretary of State for Caspian Basin Energy Diplomacy, who expressed this support in a very clear tone in almost every platform related to the project. During the 17th Congress of the World Energy Council in Houston on September 15, 1998, he stated that the U.S. Government had "a duty and an obligation" to play a major role in Caspian oil and natural gas pipelines. He reiterated the Administration's, "firm commitment to developing a network of east-west pipelines that will enhance U.S. national security interests and business opportunities for U.S. companies in the strategically critical Caspian region." In the same meeting and on number of subsequent occasions, Ambassador Morningstar further argued that, "building a Baku-Ceyhan oil pipeline and a trans-Caspian gas pipeline (TCGP) makes absolute sense for both national security and commercial reasons…Both pipelines will increase energy security by avoiding the concentration of a vast new source of oil and gas in the Persian Gulf region. Finally, both pipelines enjoy great potential to become lucrative investment opportunities for U.S. companies."[20]

With regard to Russia and Iran, the Ambassador summarized the U.S. Administration's position;

We believe Russia can play an even greater role in the east-west energy transit corridor by helping Turkey to meet its energy needs by shipping gas via the Caucasus and into a Turkmenistan-Turkey pipeline (TCGP)…We believe it makes no sense to undermine the independence of the Caspian NIS (Newly Independent States) by tying their hydrocarbon exports into the pipeline system of Iran, one of their primary competitors. It makes equally little sense from an energy security standpoint to concentrate oil and gas from the Caspian into the Persian Gulf region…In the meantime, we will press ahead as vigorously as possible on east-west energy corridors.[21]

[20] *Pulse of Turkey*, No: 57 October 2nd 1998.
[21] *Pulse of Turkey*, *ibid.*

In large part due to the countless similar announcements and statements from the U.S. and Turkish governments on BTC, negative public and private views about the project ultimately began to change.

During the Organization for Security and Cooperation in Europe -OSCE Summit on November 17-19, 1999 in Istanbul, Turkey, Georgia and Azerbaijan signed the Intergovernmental Agreement of the Baku-¬Tbilisi-Ceyhan Crude Oil Pipeline Project. Then U.S. Energy Secretary Bill Richardson stressed the importance of this project by saying that, "This is not just another oil and gas deal and this is not just another pipeline. It has the potential to change whole geopolitics in the region"[22].

Despite some difficulties, the Georgian HGA was finalized shortly after the OSCE Summit. The IGA, accompanied by annexes, was submitted to the three parliaments for ratification. The parliaments of all three countries completed this process in June 2000. Finally on October 19, 2000 in Ankara, the Main Export Pipeline (MEP) participants as the sponsor group (the Project Sponsor Group, consisting of AIOC shareholders) formed by the producers, signed the HGA with the Ministry of Energy and Natural Resources of Turkey, marking the completion of the legal framework of the project and making it possible for all other activity, including engineering, to begin. The First Phase for the Turkish Section of the Project, the Basic Engineering Phase began on November 15, 2000. Through harmonious work with the representatives of the MEP, the Basic Engineering Phase was completed on time within 6 months. After the successful completion of the Basic Engineering Phase was the Detailed Engineering Phase for the Turkish section of BTC line was initiated on June 19, 2001. Ingenieurgemeinschaft Lässer-Feizlmayr - ILF, a German company, was selected as the engineering company for this stage, which was completed in 12 months.

[22] Nancy Mathis "Ex-Soviet republics, Turkey sign accord for oil, gas pipeline", *Houston Chronicle,* 19 November 1999.

Behind the scenes, there were other crucial efforts of multilateral diplomacy that have affected the outcome of this project. During the OSCE Summit of 1999, Turkey, Kazakhstan, Georgia and Azerbaijan signed the Istanbul Declaration, wherein Kazakhstan announced its “intention” to deliver Kazakh oil to the Baku-Tbilisi-Ceyhan Crude Oil Pipeline. Following the discovery of a massive oil field at the enormous Kashagan structure off Kazakhstan's coast,[23] which according to U.S. officials and industry sources may well be the largest oil discovery in the past 20 years,[24] Ambassador John Wolf, the Clinton administration's chief Caspian oil negotiator said, “If the discovery is confirmed [it was later confirmed] it will be a tremendously important boost to the Baku-Ceyhan pipeline.”[25] Kashagan's planned flow date is 2008, roughly one year after the BTC operation date (second half of the 2006) and Ente Nazionale Idrocarburi-ENI (an Italian oil company and the operator of the Kashagan field in Kazakhstan), which also a participant in the BTC Sponsor Group.

While the contribution of Kazakh oil would be advantageous for the BTC, its absence would not adversely affect the commerciality of the project. This was made amply clear by Lord (John) Browne, CEO of BP, during the "Tale of Three Seas" conference organized by the Cambridge Energy Associates in Istanbul. On June 20, 2001, Lord Browne declared that the BTC is commercially viable even without Kazakh oil.[26] Lord Browne stated that the project is commercial, based on the Azeri-Chiraq-Gunashli and Shah-Deniz (condensate) reserves alone, and reiterated BP's determination to go ahead with the project. If there is no contribution from other Azeri, Turkmen or

[23] Exxon-Mobil's announcement of a “world-class” discovery at the Kashagan oil field in Kazakhstan has reopened speculation about the size of the resources of the Caspian Basin, leading once again to wild pro¬nouncements about soaring export rates, plush government revenues and multiple oil pipelines. Kazakh President Nursultan Nazarbaev added fuel to the fire by telling an international forum that the field was so promising that he expected Kazakhstan to export as much oil as Saudi Arabia -8 million b/d-by 2015. But, the Exxon¬Mobil consortium's find, combined with BP's prior find of natural gas and condensate field at Shah Deniz in Azerbaijan, are encouraging developments. See Amy Jaffe Myers (Senior Energy Advisor, James A. Baker III Institute for Public Policy in Houston), “Truths and Untruths about Caspian Energy”, *Private View* (The Quarterly International Review of the Turkish Industrialists' and Businessmen's Association-TUSIAD- In its kind, the most effective organization in Turkey), Autumn 2000, No.9 p. 46-52.

[24] The last oil find of comparable size was in 1979, also in Kazakhstan, when it was part of the Soviet Union. That field, located onshore at Tengiz, is now being exploited by an international consortium led by the American oil company, ChevronTexaco Corp.

[25] *Washington Post,* 5.16.2000.

[26] From the “Conference 2001 Highlights”, www.cera.com.

even Kazakh (Kashagan) fields, the pipeline may not have the projected 1m b/d (50mta) capacity, but it will be commercial nonetheless. The new cost figures came out of detailed engineering work did not affect the project's commercial viability significantly, because the cost parameters have been largely established from the basic engineering work. David Woodward, President of BP Azerbaijan, said in December 2001 that oil companies investing their own funds in the BTC could expect 20-30 percent profit -- an attractive return by oil industry standards. Lukoil's own analysis reportedly indicates 24 percent profitability.[27]

In addition to these developments, as a joint venture investment with the Russian government, ChevronTexaco, the biggest shareholder (50%) in the Tengiz oil field of Kazakhstan, completed the construction of the Caspian Pipeline Consortium -CPC pipeline in October 2001, to carry oil from Tengiz to the Russian Black Sea port of Novorossiysk (See the Figure 1). On February 8, 2001, ChevronTexaco informed the Turkish Foreign Ministry of its intention to participate in the BTC project because it believed the CPC line would never be enough to transport the whole capacity of the Tengiz field. In March 2002, ChevronTexaco applied for a 10 % share. Negotiations aimed at the sale of those excessive shares held by SOCAR were never concluded, partly due to SOCAR's ever-changing and exaggerated demands such as $250 million cash, from ChevronTexaco.[28] Until second half of 2003, ChevronTexaco still hoped to reach some kind of agreement on this issue which were never realized.[29] However, ChevronTexaco has reached its strategic goal in early 2005 when it merged with another U.S. firm Unocal. Through this acquisition ChevronTexaco has officially become the third largest shareholder in the BTC pipeline by its 8.9% share following the Unocal's shareholders approval of the acquisition on August 10, 2005.[30]

[27] Ferruh Demirmen, "Analysis of Caspian Oil Scene," *Turkish Daily News,* 26 Feb., 2002.
[28] *TEBA Newsletter* No: 1047/March 26, 2002
[29] During the CERAWeek meetings in February 2003 ChevronTexaco officials reiterated their intention to join to the project.
[30] *Chevron News Release*, 10 August 2005, www.chevron.com

Not surprisingly Russia, under the Putin administration has launched a campaign against the BTC project. The Russian government offered lower tariffs for the re-opened Baku-Novorossiysk line (after the completion of the Chechen by-pass) and exerted pressure on Georgia by both cutting that country's gas supply and reacting to the alleged support of the Georgian government to the Chechen guerillas in 2001 and 2002. Russian efforts to pressure Georgia were not without evidence. It was a strategic decision. Georgia is the most vulnerable point not only in the BTC project, but also in the whole theme of the U.S. backed East-West Energy Corridor Initiative.

Following the November 2000 U.S. Presidential elections, there was a certain degree of anxiety in Turkey regarding the future of this project and unwavering American support for it. However, in addition to some earlier signs, during Houston's Cambridge Energy Research Associates - CERA conference in February 2001, representatives from the State Department including Matt Bryza who would become Assistant Deputy Undersecretary during the second Bush Administration reiterated the United States' full support for this project.

The final stage

In concurrence with the developments after September 11th attacks, Azerbaijan, Turkey and Georgia signed the trilateral agreement on combating terrorism and organized crime in June 2002. The agreement carries special importance regarding the security of the Baku-Tbilisi-Ceyhan oil and parallel Baku-Tbilisi-Erzurum natural gas pipelines.[31]

[31] Selected News On Turkey June 24-30, 2002 compiled by the Washington Office of Turkish Industrialists' and Businessmen's Association (TUSIAD-US).

The agreement regarding the establishment of the Baku-Tbilisi-Ceyhan Pipeline Company (BTC Co.) was signed in London on August 2, 2002. The Turkish oil company Türkiye Petrolleri Anonim Ortaklığı - TPAO signed the agreement as well as BP, SOCAR, UNOCAL, STATOIL, ENI, ITOCHU and DELTA HESS at the ceremony in London.[32] Shares of the participants in this newly formed company were agreed on as follows: Pipeline operator BP holds a 38.21% interest in BTC Pipeline Co., with other interests held by State Oil Co. of the Azerbaijan Republic (SOCAR) 25%, Statoil ASA 9.58%, Unocal Corp. 8.9%, Turkish state oil company TPAO 7.55%, ENI SPA 5%, Japan's Itochu Corp. 3.4%, and Amerada Hess Corp. 2.36%.[33]

After the completion of the detailed engineering study, a groundbreaking ceremony marking the start of the actual construction phase was held in Baku on September 18, 2002. Turkish President Ahmet Necdet Sezer, Azerbaijani President Haidar Aliev and Georgian President Eduard Shevardnadze, and U.S. Energy Secretary Spencer Abraham participated in the festivities. Representatives of the operating AIOC consortium partners were also present at the ceremonies.

At the ceremony, Sezer mentioned that Kazakhstan, by establishing a connection between Aktau, a Caspian port city in Kazakhstan, and Baku, would be added to the project, and BTC would become the Aktau-Baku-Tbilisi-Ceyhan pipeline. Sezer stated that the necessary measures will be taken to add Kazakhstan to BTC, and bring Turkmen and possibly Uzbek natural gas to Baku-Tbilisi-Erzurum natural gas pipeline.

Georgian President Shevardnadze, declared the project to be "Georgia's main achievement in the past 10 years since it declared independence. Georgia is particularly eager for new energy sources, given the troubled nature of its relations with Russia.

[32] *Turkish Daily News, 3* August 2002.
[33] *OGJ*, 13 Dec. 2002.

Despite the excitement expressed by the participants, not surpri singly the Kremlin has refused to support the project out of fear that it will exclude Russia from the Western markets. Oil from Azerbaijan currently is shipped through Russian and Georgian lines (mainly through Baku-Novorossiysk and Baku-Supsa lines). Russia's biggest oil company, Lukoil, despite earlier contrary announcements, declared that it would not join the project.

U.S. Energy Secretary Spencer Abraham said the project, "contributes to regional strength and to international energy security and that helps us both." Reading a letter from U.S. President George W. Bush, Abraham said that the project would increase the world's energy security and that it would strengthen the sovereignty and independence of the nations involved.[34]

Construction phase was completed in the spring of 2005. On May 25, Azerbaijani section of Baku-Tbilisi-Ceyhan pipeline was officially inaugurated at the Sangachal terminal, near Baku, by President Ilham Aliyev of the Azerbaijan Republic, President Mikhail Saakashvilli of Georgia and President Ahmet Sezer of Turkey, joined by President Nursultan Nazarbayev of Kazakhstan. This event marked the official celebration of first oil into the BTC main export pipeline. Similar ceremonies held in Tbilisi on 12 October 2005. Official ceremony for the filling of the first tanker will be held in the second half of the 2006 in Ceyhan, after which the line is going to be officially in use.

Speaking at the ceremony in Baku, BP chief executive Lord Browne described the project as "an heroic engineering achievement, as ground-breaking in today's context as Prudhoe Bay and the Trans-Alaskan pipeline were 30 years ago." The pipeline opens up massive new fields in the Caspian Sea to world markets, enhancing security of supply for decades to come. And it does so in a way that avoids the transit of large numbers of tankers through the narrow and congested Bosporus."[35]

[34] *Turkish Daily News,* 19 September 2002
[35] *BP Press Release,* 25 May 2005, www.bp.com

Implications of the project:

Geopolitical, economic and social benefits to the countries of the region

"This pipeline first of all will help solve economic and social problems, but the role of the pipeline in strengthening peace and security in the region also is not small," Aliev said at the first oil pumping ceremony held in Baku on May 25.

President Mikheil Saakashvili of Georgia characterized BTC's opening as a "geopolitical victory" for Caspian Basin nations at the same ceremony. He was clearly implying that securing an independent energy export source would allow both Georgia and Azerbaijan to more effectively resist geopolitical pressure exerted by Russia.[36]

On the economic and social benefits account, once the pipeline becomes fully operational, Azerbaijan will be the main beneficiary of the sale of its oil in international markets, collecting (at prices of 2005) about $29 billion per year in oil revenues, while Georgia and Turkey, in the long run, will respectively collect transit fees of $600 million and $300 million per year on average during the lifetime of the project. Azerbaijan, Georgia and Turkey, the countries the pipeline will traverse, as well as part owners in the fields, could collect more than $150 billion in revenue from oil, gas and transit fees from 2005 to 2024, according to estimates by BP.[37]

Furthermore, some 10,000 work created during the construction phase in the host nations - many of whom recruited and trained locally. Almost

[36] Mevlut Katik, *EurasiaNet*, 26 May 2005.
[37] *The Associated Press,* 25 September 2002; Erin E. Arvedlund, "Pipeline done, oil from Azerbaijan begins flowing to Turkey," *NYT,* 26 May , 2005; Cagaptay, Soner & Gencsoy Nazli "Startup of the BTC pipeline: Turkey's energy role" *The Washington Institute for Near East Policy*, 27 May 2005 (http://www.washingtoninstitute.org/templateC05.php?CID=2319).

1,000 long-term positions will be needed to manage and maintain the system for its 40 years of operation.[38] Many local companies also benefited from the project's policy of purchasing local supplies where they had to meet the required quality, price and international standards.

Increased interest (and investment) from the companies

The BTC, which cost an estimated $3.4 billion for construction, financing, and line-fill, has received limited public funding. The European Bank of Reconstruction and Development and the International Finance Corporation, the World Bank's private-sector arm, pledged $250 million in loans. Although a small amount compared to the project's total funding, World Bank participation acted as a catalyst to bring foreign direct investors to the project.[39]

The biggest impact of this project came immediately after the groundbreaking ceremony. As soon as the BTC Co. was established and the groundbreaking ceremony was concluded, several other oil and gas companies, fearing exclusion, rushed to join the project.

Shortly after BP's announcement that reserves in AIOC operation area were actually more than previously believed, and that it was rich enough to fill BTC without the commitment of additional reserves from somewhere else, French TotalFinaElf joined the project. Japan's INPEX also decided to team up with the consortium in September when construction works began.[40] In addition, on October 30, 2002, BP announced it would sell a 2.5 percent stake to U.S. energy company ConocoPhillips.

[38] http://www.caspiandevelopmentandexport.com/ASP/BTC_LastingBenefit.asp.
[39] Cagaptay, Soner & Gencsoy Nazli, *Ibid*.,
[40] *Reuters*, 30 October ,2002; *OGJ* 13 Dec 2002.

As of September 2005, the shares of the companies in BTC Co. consortium and AIOC are listed below:

BTC/AIOC Project Shareholders

Company	AIOC Share	BTC Share
BP	34.1%	30.1%
SOCAR	10.0%	25.0%
ChevronTexaco*	10.3%	8.9%
Statoil	8.6%	8.7%
TPAO	6.8%	6.5%
Total	0.0%	5.0%
Eni/Agip	0.0%	5.0%
Itochu	3.9%	3.4%
ConocoPhillips	0.0%	2.5%
Inpex	10.0%	2.5%
Amerada Hess/Delta	2.8%	2.4%
Exxon Mobil	8.0%	0.0%
Devon Energy	5.6%	0.0%

*formerly Unocal shares — Source: Company websites

As stated above acquisition of Unocal by ChevroTexaco in August 2005 Unocal's share has been transferred to ChevronTexaco. It would not be surprising to see more investors in the project in the future.

The Kazakh commitment

There was a truth in the Turkish President Ahmet Necdet Sezer's words when he referred to the future Kazakh connection to the project. Immediately following the groundbreaking ceremony in Baku, Kazakh officials made it clear that the Kazakh government desired to export major volumes of oil through the BTC pipeline. Since November 2002, Kazakhstan's state petroleum company KazMunaiGaz has engaged in intensive talks with the BTC consortium, led by BP. KazMunaiGaz transport manager Kairgeldy Kabyldin said, "We are now considering an agreement between Azerbaijan and Kazakhstan which would guarantee Kazakh firms' participation in the

Baku-Ceyhan pipeline," Reuters reported. Kabyldin said Kazakhstan could commit up to 400,000 barrels of oil per day.[41]

On December 3, 2002, Kazakhstan's Ambassador to Azerbaijan, Andar Shukputov, told President Heidar Aliev, "Finally, the BTC pipeline is becoming a reality," London based financial news agency, the AFX reported. Shukputov added, "Kazakhstan wants to be involved in this project." Later, Azerbaijani officials made it public that Kazakhstan had made an official request not only to ship oil through the pipeline but also to sponsor the project. Natiq Aliev, president of the Azerbaijani state oil company SOCAR, told the Russian Interfax news agency that BTC officials had met with U.S. sponsors in London on Kazakhstan's last-minute bid for shares.[42]

BP has said it would welcome a role for Kazakhstan. The consortium has long insisted that it has enough oil in Azerbaijan to fill the one million-barrels-per-day pipeline, but it has not turned Kazakhstan away. Finally, in March 2005, Kazakhstan and Azerbaijan agreed to build the Aktau-Baku pipeline, connecting the Kashagan offshore oil fields near Aktau in Kazakhstan to the BTC in Baku via a sub-Caspian in 2008.[43] The Kashagan field is expected to produce 1.2 million b/d by 2016, when 600,000 b/d of its production is to be shipped across the Caspian Sea to be fed into the BTC line.[44] Later, then Kazakh Energy Minister Vladimir Shkolnik confirmed that Kazakhstan will officially sign the declaration on joining the BTC project before BTC becomes fully operational.[45]

---

[41] Michael Lelyveld "Kazakhstan: Astana Plans to Boost Energy Exports to West," *RFE/RL*, 08 December 2002

[42] *Ibid*., *OGJ,* 14 Aug. & 13 Dec. 2002.

[43] Project also includes $3 billion infrastructure investment in Kazakhstan and commissioning of 5, 150 thousand dwt oil tankers. Chevron, TotalFinaElf and Canadian Alberta Energy are also planning to join Sponsor Group for this project. It is true that representatives of these companies speak about their intentions unwillingly. They told in Chevron that negotiations with SOCAR are underway, and Chevron would not like to indicate percent of their participation in SG. In TotalFinaElf they told that the company will re-commence negotiations after oil reserves in this company' projects in Azerbaijan are specified. *Media-Press,* 22.08.05 http://mediapress.media-az.com/

[44] Cagaptay, Soner & Gencsoy Nazli, *ibid.*

[45] *OGJ*, 04 Aug. 2005.

With Kazakhstan's interest, BTC's viability seems to have solidified. The Kazakh government's pledge of oil also ends five years of uncertainty about its support. President Nursultan Nazarbaev previously promised the 400,000 barrels of oil per day, in November 1999, at an OSCE summit in Istanbul, but later backed away, saying he was pressured into signing the deal. Although it was planned to be signed in Baku during the first oil ceremony in May 2005, Kazakh declaration to join the BTC has been cancelled for some time again. This time Kazakh government said it could ship up to 30 million metric tons of oil annually through the BTC pipeline.

A boost for the Baku-Tbilisi-Erzurum gas pipeline

After a massive 700-billion cubic meter natural gas discovery in May 1999 in the Azeri offshore Shah Deniz region by BP PLC (BP), the consortium operator, negotiations to export this gas to the region's biggest and fastest growing market, Turkey, immediately began.[46] Since the Baku-Tbilisi-Ceyhan main oil pipeline project was in an advanced stage, reaching an agreement was not difficult. Azerbaijan, Georgia and Turkey have agreed to build a second pipeline parallel to the BTC line (the route would be exactly the same up to the eastern Turkish city of Erzurum, where the gas pipeline would connect to the Turkish gas pipeline system), which would reduce costs.

Partners[47] in the Azeri offshore Shah Deniz gas field, on March 14, 2002, cleared the way for construction of an export pipeline to Turkey by signing a Host Government Agreement with Georgia at a ceremony in the capital of Tbilisi. This was the last governmental agreement necessary for the launch of the first phase of the BP-led project in September 2002.[48]

---

[46] *OGJ*, 15 July 1999.
[47] BP, which holds a 25.5% interest in the project, confirmed that it will be technical operator for both the pipeline and the field development. Other Shah Deniz consortium shareholders are Statoil, also with 25.5%, and State Oil Co. of the Azerbaijan Republic (Socar), TotalFinaElf SA, Naftiran Intertrade Co. Ltd., and LukAgip NV-each with 10%-and Turkey's TPAO 9%.
[48] *IBS Energy Line,* 21 March 2002 Issue 04/02.

Speaking in Tbilisi, Ambassador Steven Mann, then Senior Advisor to the Secretary of State on Caspian Energy Diplomacy, said, “The United States will keep working with the government of Georgia to find ways to solve (the energy security) problem in the years ahead as well. We know that it has by no means been an easy issue for Georgia even in this winter. However, we believe that we have made good progress and we want to keep it going even as we look ahead to next winter.”[49]

The $2.6 billion first phase includes the construction of a production platform at the Caspian field and a pipeline through Georgia to link up with a new Turkish-built line. In 2001, Azerbaijan signed an agreement to supply Turkey with 2 billion cubic meters (bcm) of gas from late 2006, rising to 6.6 bcm by 2009. The pipeline will also feed the Georgian market, lessening Georgia's dependence on Russian gas supplies, which are intermittently cut off. David Woodward, President of BP in Azerbaijan also announced that Shah Deniz had a full production potential of 16 bcm a year.[50]

The construction project of the Baku-Tbilisi-Erzurum export gas pipeline was officially ratified on April 16, 2002, with the heads of the project signing the final agreement in London.[51] Despite these smooth developments towards the realization of the project, plans to export gas from the Shah Deniz offshore field from the outset faced delays and cost overruns in the early autumn of 2002.[52] Estimated costs of the project have jumped more than $600 million, irritating Azerbaijan's state oil company SOCAR. David Woodward, BP's head in Azerbaijan, said the consortium would "review the project concept."[53]

---

[49] *IBS Energy Line,* 21 March 2002 Issue 04/02.
[50] *Rigzone Energy News*, “Oil Majors Sign Caspian Pipeline Deal with Georgia” 14 March 2002, http://www.rigzone.com/news/article.asp?a_id=2843.
[51] *AZERBAIJAN,* No: 16 (318), 18 April 2002, http://www.andf-az.org/ Azerbaijan National Democracy Foundation
[52] *The Financial Times*, 30 September 2002.
[53] *Dow Jones Newswires*, 4 October 2002.

Negotiations to overcome this difficulty were finalized in early 2003. Now Shah Deniz gas is expected to arrive in Turkey in late 2006.

On the other hand, Azerbaijan's Shah Deniz field has implications beyond gas export: Its condensate will help alleviate the alleged oil-reserve shortfall for the Baku-Ceyhan oil pipeline. If in addition to gas, an oil layer is found beneath the gas in the Shah Deniz field, or independently in a separate reservoir its impact on Baku-Ceyhan will be tremendous. The Shah Deniz discovery, pointing to an alluring gas export potential from Azerbaijan to Turkey, was probably the main reason for BP's warming up to the BTC project in October 1999, after long opposition to it.[54] Since then, beside its effort to search for the necessary volumes for this pipeline, BP has assisted in the development and negotiation of innovative model agreements between Turkey, Azerbaijan and Georgia.[55]

One step closer in realization of TCGP project with Turkmenistan and/or Kazakhstan

With the realization of the BTC pipeline, Turkey and the United States came closer to their dream project; Turkmenistan-Turkey-Europe Trans Caspian Gas Pipeline project (TCGP). The BTC pipeline was, as President Bush called it, “an essential component of an East-West Energy Corridor initiative."[56] The second major component was the Baku-Tbilisi-Erzurum gas pipeline; the third component was the Kazakh addition to the BTC and transformation of the project into Aktau-Baku-Tbilisi-Ceyhan pipeline. The last essential part would include TCGP.

[54] *OGJ*, 15 Nov 1999, p. 23.
[55] Ralph Alexander, BP Amoco's Group Vice President, Testimony before the Subcommittee on International Economic Policy, Export and Trade Promotion, Senate Committee on Foreign Relations, 12 April 2000.
[56] From the letter he has sent to the groundbreaking ceremony of the project. Richard Allen Greene “Hopes and risks in Caspian project,” *The New York Times*, 23 September 2002.

In fact BTC, TCGP and the development projects of Kashagan field are very much complementary in nature. Experts say Kazakhstan and Turkmenistan can fill the pipeline when the Azerbaijani fields begin to show declines in output early in the next decade.[57] In addition, four members of the BTC Co. group also have stakes in Kashagan (ENI through Agip KCO, TotalFinaElf, Inpex and ConocoPhillips), although the formal decision on signing an agreement about shipping the oil across the Caucasus to Turkey's Mediterranean port of Ceyhan seems to belong to the Kazakh government through its monopoly over exports. With the addition of TPAO's and SOCAR's shares, companies representing 46.53 percent of the shares in BTC project have direct control of 54.63 percent of the shares in Agip KCO consortium which will operate Kashagan field[58]; BP-operator company in BTC project, ENI-operator company in Kashagan, TotalFinaElf, ConocoPhillips and Inpex. The only companies left out are ExxonMobil and Shell.

Given the promising developments in line with the resolution of the legal status of the Caspian Sea and the increasing demand of Europe and Turkey for natural gas, realization of this project makes perfect sense. Despite the Turkmen government's decision to commit high volumes of natural gas to the Russian transportation system on April 10, 2003 for the next 25 years[59], the proven gas reserves of the Turkmenistan still can make TCGP project viable. It is totally up to the Turkmen government to decide on its role on the future of this project.

Turkmenistan's long hesitation to participate in TCGP project, however, has intensified efforts to look for alternative sources of gas to make this project viable again. Motivated with diversification of its supply routes, European

---

[57] Ariel Cohen, "New Great Games in the Caspian will Involve Complex Stakes" *A EurasiaNet commentary,* 11 October 2002.

[58] BTC Co.: BP (30.10%, operator), SOCAR (25%),ChevronTexaco (Unocal) (8.90%), Statoil (8.71%), TPAO (6.53%), Eni (5%), Total (5%), Itochu (3.40%), Inpex(2.50%), ConocoPhillips (2.50%), Delta Hess (2.36%).

Agip Kazakhstan North Caspian Operating Company (Agip KCO): Eni, Total, ExxonMobil, Shell (18.52%), ConocoPhillips (9.26%), Kazmunaigaz (8.33%), Inpex (8.33%).

[59] Amy Jaffe Myers presentation at the panel on Caspian energy organized during the Offshore Technology Conference, 5 May 2003; "Turkmenistan, Gazprom to build gas pipeline by 2007", *Interfax,* 29 May 2003.

Union has increased its effort to find alternative energy sources and diversify its energy supply. Although not put into actual proposal yet, Kazakh energy officials do not reject the reports about the Kazakhstan's wish to build up cooperation with the European Union to diversify hydrocarbon export routes. The Kazakh Energy Ministry officials do not rule out that a gas pipeline across the Caspian Sea could be an option since Kazakhstan will be pumping up to 45 billion cubic meters of natural gas a year by 2015.

Environmental concerns are better addressed with BTC

Environmentally, BTC is the safest way to transport oil out of the Caspian Basin. If the chosen export route did not terminate at Ceyhan, new oil exports shipped from Black Sea ports would certainly add to the environmental risks of shipping oil through the Turkish Straits. Each 10-million-ton increment of Caspian oil shipped out to the Mediterranean would require eight-hundred trips through the Bosporus by medium-sized oil tankers, or two hundred trips by large tankers, each year. Such increases in traffic density would directly increase risk of accident and impose additional delays on other vessels, including tankers, because the strait is intermittently closed to regulate traffic.[60] This, on the other hand, would increase the cost of transportation of oil and gas significantly, a development that would certainly irritate the oil companies.

Impact on oil prices and OPEC production policies

Even relatively modest amounts of new oil reaching world markets from the Caspian could affect how the OPEC sets its production levels. It would supplement now-tight global supplies by just over 1% of the world's current oil consumption[61] and perhaps helping to lower energy prices. As Akbar Noman, the head of the World Bank office in Baku, stated "simply because, new oil from the Caspian might make OPEC countries feel that their bargaining

[60] http://www.wws.princeton.edu/~wws401c/1998/baku-ceyhan.html; BTC Environmental and Social documentation as agreed at financial close, February 2004 & 2005 Second Quarter Environmental and Social Report to Lenders, http://www.caspiandevelopmentandexport. com/ASP.
[61] "Where business meets geopolitics," *The Economist*, 25 May 2005

position has been weakened."[62] If there are further major new discoveries in the Caspian, which might very well be the case given the huge number of unexplored fields around the sea,[63] it could have an even more significant affect. In this sense the pipeline certainly advances Turkey's, United States' and EU's shared goal of developing multiple oil and gas supply routes.

Over the next decade huge investments which accumulated tens of billions so far in the Caspian basin oil and gas development projects will definitely make the Caspian region one of the major sources of incremental supply to the world market. Opening of the BTC pipeline marks the beginning of a new chapter for both countries of the basin and multinational oil companies operating in the region.

Diversified energy supply security

The East-West Energy Corridor has been referred to as "the Silk Road of the 21st century" by Turkish President Ahmet Necdet Sezer.[64] The BTC oil pipeline project, being the most significant component of this Corridor, is of vital importance in terms of consolidating the stability and economic development in the region. The security of energy supply constitutes an indispensable aspect of economic stability and security in today's world. It is a fact that energy security is a sine qua non for economic growth and stability. Given the 60% increase expected in world energy demand by 2030[65], the regional and global merits of the BTC pipeline will become more evident in time in providing uninterrupted and secure flow of Caspian oil to world markets.

The BTC pipeline will also provide direct access for the Western consumers to the Caspian oil. The pipeline will further enhance the world

[62] Richard Allen Greene, *ibid*.
[63] Just to give an example; Managing Director of the Kazakh national oil company KazMunaiGas Mr. Nurlybek Imanbaev has stated that, only in the Kazakh section of the Caspian Sea there are more than 180 offshore sites waiting for exploration drilling. From an interview made during the 2003 Offshore Technology Conference in Houston, 5 May 2003.
[64] From the speech he delivered at the opening ceremony in Baku, www.cankaya.gov.tr.
[65] BP's World Energy Report 2005.

energy supply security with its capacity of one million barrel a day, amounting to fifty million tons a year and.

The pipeline “opens a new era in the Caspian Basin's development,” US President Bush said in a letter read by Energy Secretary Samuel Bodman at the first oil ceremony in May. Bush, whose administration is also seeking to diversify energy sources, called it a ``monumental achievement.” “The United States has consistently supported (the pipeline) because we believe in the project's ability to bolster energy security, strengthen participating countries' energy diversity, enhance regional cooperation and expand international investment opportunities," Bush's letter said.[66]

Ceyhan (and Turkey) emerges as world scale energy hub

With BTC, Ceyhan will emerge as a major energy supplier to the world. Ceyhan's port, Yumurtalik, is already the terminus of Kirkuk-Ceyhan pipeline, which has the capacity to bring about 1.5 million b/d oil to the Mediterranean from Kirkuk oil fields in northern Iraq (though it is presently closed due to continuing attacks by Iraqi insurgents). Another pipeline is as mentioned above is Southern Caucasus (BTE) gas pipeline which is under construction to bring Azeri gas from Baku, via Tbilisi, to Erzurum in eastern Turkey from where it would be transported to Ceyhan to produce LNG for the US and other western markets. There are other new projects designed to make Ceyhan into an even bigger and “price setter” hub at the nexus of energy supply lines:

• Samsun-Ceyhan gas/oil pipelines and terminal. Turkey intends to enlarge its natural-gas transmission by extending the Blue Stream pipeline, which connects Russia with Ankara through the Black Sea, through an Ankara-to-Ceyhan

[66] Aida Sultanova, “First pipeline From Caspian Sea Opened,” *The Guardian Weekly,* 26.06.2005.

extension. After an LNG export terminal is built in Ceyhan, this plan would enable Turkey to re-export Russian gas. Turkey also wants to build a cross-Anatolian oil line, from Samsun on the Black Sea to Ceyhan on the Mediterranean, to further decrease traffic through the Turkish Straits. Ukraine has an interest to buy Middle Eastern oil and Caspian gas through proposed Ceyhan-Samsun oil/gas line in order to decrease its dependence to Russia.[67] Therefore, this route is under serious consideration for a pipeline to be operated in both directions for oil and gas supplies together.[68]

• Ceyhan-Haifa Pipeline. This project, first discussed during Turkish Prime Minister Recep Tayyip Erdogan's May 2005 visit to Israel, aims to bring BTC oil to Israel via a sub-Mediterranean pipeline through Cyprus. An Israeli delegation visited Turkey in September 2005 to further elaborate on the project. There are also plans for parallel pipelines to carry water, gas, and electricity, and perhaps fiber-optic lines, to Israel, as well as to Northern Cyprus, Jordan, and the Palestinian territories, bringing the latter closer to Turkey and Israel economically and politically.[69]

Following the BTC's completion, BTE and TCGP projects are gaining an additional importance given the fact that there will be a 70-80% rise in the natural gas consumption of the European Union by 2030.[70] The projection that this increase in demand would be met partly by the natural gas to be transported by these pipelines, highlights Turkey's importance with respect to EU efforts to diversify its energy resources making Turkey one of the four supply arteries to the EU, along with Russia, Norway and Algeria.

---

[67] This make perfect sense for the Ukrainians given the fact that the new revolutionary government's decision in March 2005 to reverse the operation route of Odessa-Brody pipeline from North-South to South-North direction. Ukrainian pipeline (commissioning is expected at the end of this year) will deliver Caspian oil to Eastern European countries, and later - to Baltic ports Gdansk and Rostok. *Media-Press,* 22 August 2005, http://mediapress.media-az.com/.

[68] Cagaptay, Soner & Gencsoy Nazli, *ibid.,*

[69] Samsun-Ceyhan and Ceyhan-Haifa project was also endorsed by India. India announced its open support to these projects during the Turkish energy Minister Hilmi Guler's visit in November 2005.Gail Nissim, "$1b Israel-Turkey Oil Pipeline Planned" *Globes*, September 20 2005.

[70] BP's World Energy Report 2005.

Conclusion

The BTC pipeline has been more popular with statesmen rather than businessmen, as its appeal is much more geopolitical than commercial. As stated repeatedly, the political allure of the BTC project for the whole region is self-evident: On the one hand, the BTC pipeline could deny Iran a significant role as a Caspian energy exporter, reduce the dependence of Caspian states on Russian pipelines, and bolster fledgling regional economies; especially those of Azerbaijan, Georgia and Turkey.

On the other hand, however, the combined diplomatic weight of the United States and Turkey has ultimately overcome the commercial hesitation and cost-conscious reluctance of the Western oil companies to support the $ 3.4 billion BTC project and has turned it from "a pipeline pipedream" into a “one million barrel fact” as the senior U.S. adviser on Caspian Basin Energy Diplomacy, Ambassador Stephen Mann likes to call it.[71]

Accordingly, the BTC project has always been considered a politically motivated project. This was so, long before it was declared a commercially viable option to export oil out of the region. And indeed political decisions, such as Iran's and Armenia's exclusion from the project, and the clear-cut objective of bypassing the Russian northern route were shaped by political motives. That brings me to the essence of what I want to convey: It is axiomatic in the Caspian Basin that energy projects involving all, or a group of, riparian countries can only take place if a political climate conducive to political dialog is in place.

The BTC project is the first comprehensive project aimed at changing the status quo in the region; the status quo being the only alternative route to

[71] From the speech delivered by Ambassador Mann during the CERA week conferences in Houston on 12 February 2003.

export oil out of the region, the Russian route to Novorossiysk. For the first time, Russia's monopoly over oil export routes from the Caspian region has been broken, and with additional pipelines entering the scene in near future, this trend is likely to accelerate.

Given the fact that the BTC line is operational and BTE is going to be fully operational in the second half of the 2006, Kazakhstan and Turkmenistan have robust alternative in order to diversify their chances to export their oil and gas. BTC has also decreased the cost of additional pipelines that would run parallel to the BTC line, such as the Baku-Tbilisi-Erzurum gas pipeline. Together with the CPC pipeline, the BTC is the likely candidate to export the region's greatest oil reserves, such as Kazakhstan's Kashagan field. With ChevronTexaco's involvement to the project it can be argued that BTC has gained a kind of guarantee for a sustainable, direct, steady and reliable supply of crude oil (from Kazakh Tengiz and Kashagan fields) which will keep it operational well beyond its estimated lifetime and capacity.[72]

---

[72] Discussions on increasing the BTC's capacity about 800 thousand barrels through 1 billion investment have already began. From the interview with the SOCAR President and Azeri Oil Minister Natik Aliyev, *Media Press,* 22 August 2005.