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From Pipedream to Pipeline: A Caspian Success Story

BRENDA SHAFFER

Construction of the Baku-Tbilisi-Ceyhan (BTC) pipeline—one of the most debated infrastructure projects of the past 50 years—is now complete, defying the pessimistic assessments of energy experts, journalists, and many non-US policy makers who had dismissed the project as nonviable and unrealistic. The pipeline will transport oil from Baku, Azerbaijan’s capital on the coast of the Caspian Sea, westward through Tbilisi, Georgia, and on to Ceyhan, Turkey, more than 1,000 miles (roughly the distance between New York and Miami). With a projected cost of \$3.6 billion, the BTC pipeline is designed to carry 1 million barrels per day—a little over 1 percent of the world’s daily oil consumption. Kazakhstan has announced that it intends to export part of its expanding oil production through the pipeline, thus extending the scope of the project. Parallel to the oil pipeline, a natural gas pipeline from Baku through Tbilisi to Erzerum in Turkey is under construction and is set to become operational in 2006.

Despite the relatively modest volumes of oil in the Caspian Sea, the construction of the BTC pipeline was preceded by especially intense political maneuvering by the project’s proponents and opponents. Several heads of state took a stand on the proposed pipeline, and the line’s route and funding entered into US congressional debates in which a number of ethnically based lobbies campaigned for and against the project. President Bill Clinton even personally endorsed and promoted the pipeline project on a number of occasions. In addition, many prominent international NGOs—concerned with issues as diverse as the environment (World Wildlife Fund) and the plight of the

Kurds (Amnesty International)—waged public opinion campaigns against the pipeline.

A decade after the initiation of intensive political efforts in promotion of this infrastructure project and on the eve of its becoming operational, two questions stand out: Why did the BTC pipeline project succeed, and what does it teach us about the politics of global energy supply? The answer to both questions centers on three factors: geopolitics, geography, and geology.

GEOPOLITICS RULES

Many who opposed the Baku-Tbilisi-Ceyhan pipeline dismissed it by declaring that the route was “political.” They insisted that market forces alone should determine the routes of energy transport and that Washington should not take policy stances on energy infrastructure projects. But the BTC pipeline strongly illustrates that major energy infrastructure projects inherently contain political considerations. The price of building infrastructure such as pipelines is affected by political risks and the security of the investment environment. Dependencies and other aspects of relations among the transit states of a project also affect the extent of risk. In this case, political considerations contributed to the choice of the route and the success of the project.

The geostrategic value of the Caspian Basin made the development of the region’s oil and gas an object of special interest to a number of states. The United States, Russia, and Iran all vied to have Caspian oil and gas exported through their territories or, in the case of the United States, through states fully affiliated with the Euro-Atlantic alliance (Turkey and Georgia). The modest volumes of oil and gas in the basin stood in contrast to the colossal political efforts that the competing sides mounted to promote and thwart various pipeline options, indicating that the pipeline route was regarded as a

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means of building influence and cementing a new geopolitical order in the Caspian region.

Indeed, the goal of winning the pipeline battle was less to gain the moderate volumes of oil and gas in the Caspian than to maintain (in the case of Russia) or attain (in the case of the United States and Iran) significant presence in the region. At the crossroads of two continents, the Caspian region is a worthy geostrategic prize. Today, some of the states of the region host simultaneously both US and Russian military forces, underscoring the Caspian's geostrategic value.

Lucrative transit fees have become a populist explanation for various energy pipeline initiatives. Many analysts described the BTC battle as motivated by the desire to obtain these fees from the route. Transit fees from oil and gas pipelines are, however, generally quite modest and not attractive enough to provoke the intensive lobbying and political activity that the BTC project generated. Georgia, for example, is expected to earn approximately \$508 million in transit fees over the next 20 years of operation. While these funds are not inconsequential, especially in light of Georgia's weak material resource base, they are clearly not enough to warrant any state to undertake extensive national efforts or make a major shift in political orientation.

The real goal of most of the states involved—especially in the case of the regional powers—was to create dependencies and frameworks of political or security cooperation. Iran and Russia were not energetically lobbying to earn transit fees, but to have the new Caspian states become dependent on them. Washington invested considerable political capital in pursuit of an east-west pipeline in the hopes of politically aligning the new states with the United States. Georgia aspires to enhance not only its security and independence, but also international interest in its stability and territorial integrity by serving as the lynchpin in the pipeline route. In fact, Tbilisi offered low transit tariffs at a number of junctures to Azerbaijan and international oil companies to ensure that the BTC was commercially attractive and thus would be built.

In addition to political goals, the United States sought to promote the development of oil supplies from non-OPEC countries, thereby reducing the cartel's ability to control world oil prices. In 1998, US Energy Secretary Bill Richardson remarked that "this is about America's energy security, which depends on diversifying our sources of oil and gas worldwide. . . . We're trying to move these newly independent countries toward the West. . . . We would

like to see them reliant on Western commercial and political interests rather than going another way."

The establishment of the BTC pipeline and its transport corridor allows the newly independent states of the greater Caspian region to decrease their dependence on Moscow and make cooperation with the United States their new security orientation. The United States has used these new relationships to enhance transportation capabilities for its two major arenas of military operation: Afghanistan and Iraq. Today, bases in Central Asia help supply US forces in Afghanistan, and the Caucasus and Central Asia provide a major air corridor for the United States (and Europe) into the Middle East. While these security relations with Central Asia and the Caucasus have provided America with key transport options, they also have created new policy challenges and security obligations because of the region's political instability. Close security cooperation with the United States has exacerbated this instability, especially in the case of Uzbekistan.

NATIONAL GEOGRAPHICS

The Caspian Basin's geography became entwined in politics in determining the route of the BTC pipeline. Landlocked Azerbaijan faced both commercial and political considerations in deciding on an export route for its oil. Tehran applied pressure on Baku to export its oil and gas through Iran, and some international oil companies expressed interest in this option. It was, however, a political consideration that led Baku not to pursue the Iranian route. This was a desire to build an export route for its oil and gas that created dependencies on friendlier and less powerful states. Azerbaijan rejected exporting its oil through Iran not because of US pressure, but in accordance with its perception of its own national interests.

Critics of the BTC route and Iranian representatives argued that the "commercial option" for building a major export pipeline from Azerbaijan was through Iran. The critics assumed that if Washington removed its opposition, Baku would choose the Iranian route. Conversations with senior Azerbaijani officials who participated in Baku's decision-making process suggest instead that the turning point in pursuing the east-west corridor was actually the decision by Azerbaijani President Heydar Aliyev to promote the east-west route. This was based on his assessment of Baku's relations with the various potential transit states and the goal of using the pipeline route as a way to cement Azerbaijan's political and strategic orientation toward the United States.

If Baku had favored the southern option through Iran, it could have signed deals with non-US compa-

nies to build this route, but it chose not to do so. Baku's relations with Iran are problematic because of Azerbaijan's pro-US orientation and Tehran's support for Armenia in its war with Azerbaijan over disputed Nagorno-Karabakh. Landlocked states tend to build their major transit lines through states with which they have friendly relations. Thus, Azerbaijan did not seriously consider exporting its oil through Iran, preferring to export through Georgia, with which it shared a pro-US security orientation. Georgia was also an attractive transit site because, as a weak state, it could not easily take advantage of Baku's ensuing dependence on transit through its territory. Georgia's mountainous geography, as well as the need to avoid passage through ethnic Armenian areas in order to reduce security risks, mandated that the route pass through environmentally sensitive areas of Georgia. This also increased the costs, but neither Baku nor Tbilisi was deterred from their partnership.

Geography also played a role in how Russia viewed the pipeline plans of its neighbor to the south. Through most of the first post-Soviet decade, Moscow actively opposed the building of an east-west pipeline, championing continued export through Russian pipelines in order to maintain Caspian states' dependency on Russia. This attitude changed in late 1999 and early 2000 when Moscow accepted the BTC project. Moscow came to realize that the overburdened Russian pipeline infrastructure could not accommodate the increasing volumes of Caspian oil.

In addition, Russia since the Soviet dissolution has given high priority to maintaining free passage of its shipping through the Bosphorus strait, which an international free passage regime currently guarantees. Most Caspian oil transported through Russian pipelines would have to cross the Black Sea in tankers and pass through the already crowded Bosphorus. A significantly higher volume of tanker traffic could tempt Turkey to challenge the international free passage regime. To avoid this situation and also further its larger goals with regard to Turkey, Moscow shifted its opposition to the BTC pipeline as it sought political accommodation with Ankara on a variety of issues.

THE DISCOVERY OF GAS

The United States and other proponents of the BTC project made commercial viability a precondition for their participation. Moreover, by the late

1990s, it was clear that Azerbaijan's modest oil holdings would not justify multiple export pipelines. Until July 1999, no major energy company had endorsed the BTC route. That month, however, BP led a drilling operation in the Shah Deniz field in the Azerbaijani sector of the Caspian Sea and discovered that this huge field contained large volumes of natural gas. BP had already announced that it considered entry into the Turkish natural gas market to be an important commercial goal; in fact, BP was keen to establish a dominant presence in Turkey. BP's pledge to build the BTC oil pipeline—a project that Ankara viewed as economically and politically lucrative for Turkey—is thought to have enticed Turkey to agree to buy the Shah Deniz natural gas.

Once Ankara agreed to purchase this natural gas, BP became committed to build a gas pipeline from Baku to east Turkey. At this juncture, the added costs of constructing the BTC pipeline, which was for most of the way on a parallel route, were minimized as part of a joint project, and the BTC pipeline became commercially viable. The chief

investors in Shah Deniz subsequently became the chief investors in the oil pipeline project.

Ankara also pressed BP to refrain from developing energy projects that would increase shipping in the already dangerously crowded Bosphorus strait. It also helped that the BTC route was the preference of Azerbaijani President Aliyev. This contributed to the longevity of the relationship between BP and Azerbaijan.

LESSONS LEARNED

The construction of the Baku-Tbilisi-Ceyhan pipeline illustrates that the decision to complete a major international energy infrastructure project is connected to a variety of factors, of which the price tag is but one. It confirms, for example, that sustained higher oil prices and increased global demand for energy, along with some consumer states' desire that a larger portion of world oil production come from non-OPEC member states, will lead investors and developers to energy resources in complicated locations—geologically, geographically, and geopolitically.

Moreover, energy pipeline projects like the BTC that run through several countries are becoming more common. The linking of a number of states in major infrastructure projects will have a significant effect on both regional and global politics. This link-

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ing will also create demand for new research and legislation in a variety of spheres, such as pipeline security, property rights, environmental protection, and the social implications of the linking of states.

The opening of the BTC project debunks a number of myths connected to oil pipelines and local and regional conflicts. Building gas and oil pipelines does not necessarily stabilize any of the countries along their routes and certainly does not guarantee conflict resolution. Azerbaijan hoped that the BTC project would enhance international efforts to resolve the Nagorno-Karabakh conflict with Armenia. Georgia hoped its participation in the project would encourage the international community to bring pressure on Moscow and its client separatists in Georgia to concede disputed territories back to Tbilisi. Neither of these scenarios has transpired, despite the opening of the pipeline.

On the flip side, major energy infrastructure projects do not need a strong security environment to become operational. Armenia and Russia calculated that the continuing conflicts in the South Caucasus in which they were embroiled would serve as obstacles to the building of the BTC pipeline as well as the membership prospects of Azerbaijan, Georgia, and most of Central Asia in Euro-Atlantic security organizations. This did not materialize either.

WHOSE STRATEGIC GOALS?

In analyzing policy stances in the region, we need to distinguish between those of the US-based energy companies and those of the US government. The major US energy companies active in the Caspian region did not support Washington's promotion of the east-west corridor pipeline, and most of the major investment in the project is from non-US based oil companies. Among BP's goals in leading the project was a desire to increase its long-term cooperation with the US government and to ensure its primacy in the Turkish energy market. In addition, the assets of many oil companies are located in a variety of global locations, not necessarily overwhelmingly in their home base countries. The privately driven agendas and policies of the Western oil businesses (and most of the Russian oil companies as well) set them apart from most Middle Eastern oil enterprises, which are national oil companies and operate as an arm of the government.

The BTC oil pipeline and parallel gas pipeline, as well as a number of additional pipeline projects, have turned Turkey into a major energy hub. Turkey has agreed to import natural gas from a variety of sources far beyond the volumes necessary for domestic con-

sumption in hopes of becoming a transit hub for export on to European and other markets. Turkey is now investing in liquid natural gas terminals to strengthen its energy hub role. The BTC corridor also creates options for Afghanistan to transport goods on an east-west route and not only through traditional ports in the south (Pakistan and Iran). This can help Kabul sustain its close links to the United States and Europe and will allow states such as Turkey to maintain an important role in Afghanistan.

For the United States, the BTC pipeline marks a prominent success for its Caspian policy of creating an east-west transit corridor. This corridor is changing the geopolitical opportunities for the states of the greater region. However, the nature and pace of Washington's democratization policies in the area may lead to the unraveling of the new system: some countries in the region have gone through periods without government (Kyrgyzstan) or have been stripped of support for dealing with nondemocratic elements attempting to destabilize the state (Uzbekistan). The process of democratization itself is inherently destabilizing since it does not provide, especially during the transition period to democracy, defense against nondemocratic elements working to destabilize transitioning regimes. The United States has not found the right formula that allows the promotion of democratization and good governance while at the same time ensuring stability in the region. In fact, it is fair to say that Washington does not have a clear policy on this issue.

Stability in the region is necessary for the continued viability of the transport corridor, but also for democracy to become rooted in the Caspian region and Central Asia. American-funded NGOs that promote rapid political change among the region's states are muddying US policy in this sphere. Local governments do not easily discern between the policy of the US government and that of US-based NGOs and consequently often view Washington as attempting to undermine them, obviously damaging the cooperation between Washington and local capitals.

In any event, in a period of high oil prices and with an American energy policy that promotes increased production, there likely will be more investment in projects like the BTC pipeline and more entanglement by energy companies and the US government in complicated political situations. As with BTC, the appeal of these projects will depend not simply on cost but on a variety of geopolitical considerations that cannot be neatly detached from the economics of energy. ■