

# Caspian Basin oil pipeline company founded

**Paul Stuart**  
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On August 1, after eight years of bitter political intrigue, the Baku-Tbilisi-Ceyhan Pipeline Company (BTC Co.) was founded during a document signing ceremony in London. Witnessed by representatives of the pipeline's host countries Azerbaijan, Georgia and Turkey, the new corporation marks a major step in the opening of a new export route for Caspian Basin oil resources to the United States, Israel and Western European markets.

The objectives of the Baku-Tbilisi-Ceyhan pipeline, according to US officials, is to reduce dependence on OPEC oil producers in the Middle East, create a secure supply of oil to Israel, and begin to end dependence on Russian and Iranian oil transportation networks from the Caspian region. The preparation for the huge pipeline has already seen an escalation of US military activity in the former Soviet Republics bordering Russia, integrating them further into US military plans. The construction phase will see a dramatic further growth in US military operations.

At an initial cost of \$2.5 billion, estimated to double before completion and funded from "free public money" and private finance, BTC Co. will construct, operate and own the 1,750 kilometre pipeline from Baku in Azerbaijan, through the Georgian capital Tbilisi then onto the Turkish Mediterranean oil terminal at Ceyhan. The pipeline will be ready to pump oil in 2005 from a phase one development of the Azeri-Chirag-Gunashli oil field. Its capacity will be one million barrels per day. A 900-km gas pipeline running between Baku-Tbilisi-Erzurum, terminating in Turkey's Anatolia region, will form the axis of the US sponsored Eurasian Energy Corridor.

Since the Eurasian Energy Corridor project was officially launched in 1994, the US and Turkish government's have sponsored various events announcing the "imminence" of a deal. As a result such declarations were increasingly greeted with cynicism. This time, however, pipe-lay contracts have been awarded. Consolidated Contractors International of Greece will construct Azerbaijan's section. France's Spie Capag will lead a joint venture with US Petrofac to lay the Georgian sector. BOTAS, the Turkish State pipeline company, will continue as the lump sum turnkey contractor for the Turkish sector of the pipeline. Bechtel (US) will be the main contractor for engineering, procurement and construction.

The British Petroleum (BP) umbrella consortium, Azerbaijan International Oil Consortium (AIOC) first signed contracts to explore Azerbaijan's Caspian oil and gas fields eight years ago. The BTC Co. project has caused fracturing within the Consortium. AIOC major shareholders, ExxonMobil and ChevronTexaco continue to object to the pipeline project on commercial grounds, but the project is ready to move into construction phase.

BP is the leading shareholder in the Baku-Tbilisi-Ceyhan Pipeline Company. September marks the tenth anniversary of BP's outline agreement with Azerbaijan for exploration of the Azeri-Chirag-Gunashli oil field. Since then investment in BP projects in the country's oil sector total \$16 billion and is said to be the most complex infrastructure development in the world.

Since November 1999, BP has shifted from a public "position of scepticism" to leading the formation of BTC Co. BP has not explained the

abrupt change of policy, but oil industry analysts have accused BP of entering a political alliance with the Bush and Blair governments. A BP spokesman replied that Azerbaijan at present has limited oil reserves, but it is a "key component of its [BP's] growth strategy" and that "the pipeline was a strategic route out of the South Caspian and had to be built."

BP's policy change was in all likelihood prompted by a combination of the discovery in May 1999 of the Azeri Shah-Deniz oil field and the US administration's financial guarantees.

Negotiators for BTC Co. and US politicians were unable to convince executives of ExxonMobil and ChevronTexaco, major shareholders in the AIOC, to become shareholders in the new corporation. At a conference on the BTC pipeline attended by US government officials, Chevron vice Chairman Richard Matzke declared, "pipeline projects required an incremental approach grounded in commercial realities, not perceived geopolitical imperatives." He added, "Oil cannot be pulled through a pipeline, but can only be pushed."

ChevronTexaco and ExxonMobil are not objecting to political interference in commercial decisions. Through AIOC they have completed a new Russian pipeline from the Tengiz oil field in northwest Kazakhstan to the Russian Black Sea port of Novorossiysk. Differences between oil executives over oil pipeline routes from the Caspian fields are not only commercial, but reflect differing political strategies within the Bush administration.

Oil executives' objections do have substance: the Baku-Tbilisi-Ceyhan pipeline passes through regions of enormous political instability and social unrest. At one stage the Azeri section passes within 10 kilometres of the Azerbaijan and Armenia disputed border region, which caused terrible ethnic wars in the early 1990s. In Georgia the pipeline will pass through the Pankisi Gorge, home to Chechen forces. The Turkish section passes through its southeastern region, where the Kurdish minority lives.

A spokesman for the London based Kurdish Human Rights group said, "This pipeline would militarise a corridor running from the Caspian to the Mediterranean.... This could threaten the fragile ceasefire in the Kurdish region through which the pipeline will pass".

Pete Holibil of Prague based CEE Bank-Watch warned that the jobs promised by host country governments would not materialise. BP has had to reign in estimates and insist that local economic impacts will be severely limited. Holibil added, "Local people lack basic energy supplies, but the oil and gas from the Caspian will be piped straight to Western markets. Local communities will be by-passed completely."

Not only is the pipeline created on entirely fresh ground with no previous infrastructure development, it also runs over three regions that suffer regular earthquakes. According to an environmental impact report, BP has brushed aside such dangers. Under different circumstances such obstacles would cause oil executives to terminate a planned commercial operation at the feasibility stage, but in this case the political necessity of US domination of the Caspian is driving commercial decisions.

Pipeline volume does not correspond to the relatively small-scale volume of oil currently extracted from Azerbaijan. At present Azeri oil transported through the smaller AIOC pipeline from Baku to the Georgian

Black Sea port of Supsa is 200,000 barrels per day. The port can only handle 80,000-ton tankers, whereas at Ceyhan a massive terminal will be built to handle 300,000-ton tankers.

The US-BP project is expected to enter intense competition for the significant new oil fields discovered in Kazakhstan. One report said the "Bush administration insists that Kazakhstan [largest oil discoveries so far] join the planned Baku-Ceyhan project by building an underwater pipeline that would link its Caspian sea port of Akatu to the Azerbaijan capital (Baku). In Washington's view, such a development would not only make the projected conduit more profitable, it would also tie Kazakhstan to its own Central Asian regional security build-up."

BTC Co. faces fierce competition from Iran and Russia. On March 26, 2001, Kazakhstan began pumping oil from its huge Tengiz oil field through a Russian pipeline to the major Black Sea oil terminal at Novorossiysk. They are also considering a deal with Iran to transport its oil from the huge new Kashagan oil fields to the Persian Gulf. On May 13, 2002, Russia and Kazakhstan struck an agreement over the demarcation of the northern Caspian seabed and both hope that it clears the way for further joint ventures.

The protection of the pipeline has become a pretext for broader US military operations in the region. Controlling pipeline routes from the Caspian Sea has been identified by strategists as a key post Cold War objective. On April 29, the presidents of the three host countries met in the Turkish Black Sea port of Trabzon to discuss security issue surrounding the Baku-Tbilisi-Ceyhan pipeline. Georgia's Eduard Shevardnadze, Azerbaijan's Heidar Aliiev and Turkey's Ahmet Necdet Sezer signed a security pact creating the foundations for reorienting its military structures to protect the pipeline and the Eurasian Energy Corridor.

On February 21, two US Air force planes brought 40 US special advisors to Tbilisi, the Georgian capital—the first time US combat troops have been deployed in the Caucasus. They will prepare the groundwork for the later deployment of 200 Special Operations troops as part of the US's "Georgia Train & Equip" programme. They will concentrate their activities in the Pankisi Gorge against Chechen and Islamic militants.

Both the US and Russia have declared the gorge to be a hideout for fleeing Taliban and Al Qaeda terrorists. Although there is agreement on this question, the Russian government has reacted angrily to the latest incursion by US combat forces into what it regards as its own sphere of influence. Georgia has rejected Russian demands that its forces be allowed in to secure the Pankisi Gorge. Leading strategists in the US see the snubbing of Russian offers and the arrival of US troops as a strategic victory.

An interview with the head of the state-run Georgian International Oil Corporation, Giorgi Chanturia, which is directly involved in negotiations at Trabzon, said, "All three states have said, through their presidents, that they will sign an agreement on the creation of co-ordination [structures] to ensure the safety of the two pipelines but also of the main communication arteries, the electricity transportation network, the fibre optic cables, etc."

Chanturia explained the significance of the arrival of US military personnel: "... the training programme will partly aim at helping Georgia ensure the safety of oil pipelines. As I said, [Georgia, Azerbaijan, and Turkey] have agreed to guarantee the safety of the pipelines on their respective territories. From the very beginning, we have said that issues related to the safety of the pipelines will be part of the [US] training programme."

Chanturia added, "What has been set up [in Trabzon] is a basis that will help bring regional co-operation with regard to the safety of the whole energy corridor to a new level in order to protect the interests of the producing countries, transit countries and consuming countries. What is at stake is not only the security of the pipelines, we are talking here about the entire energy corridor." The next summit in Tbilisi is expected to attract growing interest in the former Soviet republics.

Russian oil giant Lukoil, also a leading shareholder in AIOC, approached the Russian government on investment in BTC Co. but was instructed to reject all offers. The Russian government has for the last eight years supported an alternative Russian route to the Baku-Tbilisi-Ceyhan Pipeline. It has also sought agreement to form what the Russian press calls a "Central Asian OPEC." In May 2001 the Eurasian Economic Commonwealth (EEC) was formed, creating a free trade zone between Russia, Belarus, Kazakhstan, Kyrgyzstan and Tajikistan.

Internal trade has increased by only one percent on the previous year. Russia is using the EEC to pursue common border defence agreements. According to Sergei Blagov in the *Asian Times* July 30, "Russian President Vladimir Putin diplomatically summed up the decision the other EEC member states would soon face: 'Russia has to determine whether it needs to fortify its border with Kazakhstan, or guard [the Kazakh border further south]'".

One of Putin's first acts after coming to power was to refocus Russian policy toward the Caspian Sea. A report in *Caspian Sea Oil Studies* explained, "Russia's new leader, Vladimir Putin, was pushing ahead with an aggressive policy designed to recover Moscow's regional hegemony. Soon after Putin's March 26 election, Russia's National Security Council declared the Caspian region to be one of Russia's key foreign policy interests."

The report continues that the former energy minister Victor Kalyuzhny took up a newly created post on May 31, 2002 as a special co-ordinator on Caspian policy: "The creation of the post underlined a significant shift from Moscow's *ad hoc* and disorganised approach seen during the Yeltsin era.... The ominous implications of Russia's new policy were underlined by Andrei Urnov, Russia's ambassador at large and chief of the Foreign Ministry's Working Group on the Caspian Sea, in a May 2000 appearance on Capitol Hill.... Urnov told the Washington audience, 'it hasn't been left unnoticed in Russia that certain outside forces are trying to weaken our positions in the Caspian Basin, to drive a wedge between us and other Caspian states'".

Russia's Naval Caspian Sea Flotilla is one of the few areas of military spending that has expanded. Over the last few years it has doubled in size. When the Soviet Caspian Navy was disbanded after the dissolution of the Soviet Union, Russia had to withdraw from its main naval base in the Azerbaijan capital Baku and create a new one at Astrakhan. This reorientation of Russian naval power was displayed last during the largest Caspian Sea naval operations since 1991. Between August 1-15 this year, 60 ships, 30 aircraft and 10,000 military personnel took part in operations aimed at defending oilrigs, terminals and seaports.

None the new states in the Caspian have any real military or naval capacity to match Russia's. Iran, in an agreement signed in 1924 with the former Soviet Union, was not allowed naval bases along its Caspian coastline. Due to the expansion of Russian naval presence and conflicts with Azerbaijan, the Iranian State is now considering the transformation of existing ports into naval bases. Turkmenistan recently signed a contract with the Russian government to exchange gas rights for gunboats. According to a report in the *Asian Times*, "In March 2002 Washington announced it would soon provide military aid to build its [Azerbaijan navy]—to protect its claims to a section of the Caspian Sea also claimed by Iran."

Iran has consistently opposed the BTC pipeline project and Azerbaijan's regional ambitions to become a strategic energy transportation hub. Iran possesses the most efficient pipelines into the Persian Gulf and thus onto Asian markets. In the face of fierce US opposition, France's Total, operating in Iran and the Caspian, is planning a feasibility study to transport oil from Turkmenistan and Kazakhstan via Iran into the Persian Gulf.

AIOC firms have lobbied the US administration to allow it to pump 800,000 barrels per day through Iran's National State Oil Company. It

was ruled out after Iran was named as the main sponsor of terrorism in Bush's "axis of evil" speech. The US government has used a combination of political and financial muscle to turn oil corporations away from using Russian and Iranian pipeline routes and to construct an alternative network.

Iran and Azerbaijan clash regularly over border disputes. The most serious was an incident last July, when two Iranian airforce jets threatened to sink two Azeri ships hired by BP to explore the Araz-Aloo-Sharg oil field. The Iranian military accused the ships of entering Iranian waters. US officials told Iran it would not tolerate threats against Azerbaijan. Turkey's General Staff Chief Kivrikogla went to Baku, followed by ten fighter jets. Azer press declared the deployment a "warning to Azeri enemies" and in one article declared that Turkey and Azerbaijan may be two countries, "but we are one nation".

Iran's main political weapon is to disrupt any agreement on the division of the Caspian Sea Basin. The Iranian government is demanding that Caspian Sea wealth be equally distributed between all countries with a Caspian coastline. Disagreements between Russia and Iran and Azerbaijan are frustrating the development of Caspian energy resources. Brenda Schaffer of the Caspian Studies Program at Harvard University explained, "The main problem with Iran is that, for them, the Caspian isn't about two more percentage [points] this way or two more percentage [points] that way. It's basically about obstructing the flow of Caspian oil in order to keep Azerbaijan in a weak position."

The Iranian bourgeoisie fear the possible outcome on Iran's internal political situation if Azerbaijan becomes one of the major regional hubs for oil and gas production and transportation. Approximately 10 million Azeris live in Iran—more than in Azerbaijan. The Iranian regime believes that separatist forces in the Azeri community may demand areas of Iran where they predominate break off and develop relations with Azerbaijan.

Recent US Central Intelligence Agency (CIA) reports on internal Iranian politics indicate that the Bush administration is not only considering a direct military assault on Iran, but also using Azeri political forces to destabilise, weaken and break-up the Iranian State. Schaffer also adds a crucial point: "As an OPEC producer, they are very concerned with the development of non-OPEC oil sources, which ruin the OPEC monopoly and thus its ability to manipulate prices and use oil in a political way."

The Baku-Tbilisi-Ceyhan Pipeline Company will have a significant impact upon military, economic and diplomatic relations in the Caspian Region. All five nations surrounding the Caspian Sea will dramatically increase naval capacity, financed by the major powers. The Eurasian Energy Corridor opens up a new high-tech artery of the global economy, but under imperialist control it marks a major step towards military conflict in Central Asia.



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