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Caspian Energy: Happiness is Multiple Pipelines

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Back in early 1990s, in the immediate aftermath of the collapse of the Soviet Union, when Western companies for the first time had the possibility of exploiting Caspian energy, sharp-eyed observers inside the Beltway could spot a bumper sticker proclaiming, "Happiness is multiple pipelines." The slogan referred to Washington's preference for Caspian energy exports to flow westward via a skein of new pipelines designed with two purposes.

First, to isolate Iran, subject to the Iran-Libya Sanctions Act, designed to punish naughty Western companies seeking a foothold in Iran's hydrocarbon sector. Second, to break Russia's stranglehold monopoly on Caspian exports, which in 1991 forced Azerbaijan to use the Baku-Novorossiisk pipeline, a privilege for which Russia charged extortionate transit fees.

Seventeen years later, Washington remains committed to its original vision even as the region's export facilities have developed in ways sometimes contradictory to U.S. hopes. The fondest U.S. dream remains a Caspian undersea set of east-west natural gas and oil pipelines terminating in Baku, which would allow Kazakh, Turkmen and Central Asian hydrocarbon exports to bypass both the former Evil Empire and Axis of Evil charter member Iran to flow across Azerbaijan through staunchly pro-Western Georgia and Turkey, to enrich them with transit fees and benefit Western consumers.

To that end, last month the U.S. Agency for International Development awarded a $1.7 million grant to the State Oil Co. of the Azerbaijani Republic to conduct a feasibility study on the construction of trans-Caspian oil and natural gas pipelines. Perhaps not surprisingly, SOCAR in turn awarded the tender to U.S. company KBR, formerly Kellogg, Brown & Root, a former subsidiary of Halliburton, to conduct the research. KBR in turn has teamed up with the Houston-based Granherne Co., and subcontractors include an Azeri design institute, McDermott, Azekoservis and KazEcoProject. The KBR feasibility study will include initial pipeline designs covering their commercial, technical and legal characteristics, transit fees for shipping oil and gas to global markets and contacts with proposed transit countries Kazakhstan, Georgia and Turkey and potential European importers.

The proposed study flies in the face of a simple reality — 17 years after the implosion of the Soviet Union, the Caspian seabed and waters have yet to be definitively divided by Azerbaijan, Russia, Turkmenistan, Kazakhstan and Iran, and there is no immediate resolution in sight. The issue of competing claims over Caspian national waters in July 2001 saw Iran dispatch a military aircraft and a warship to intimidate two Azerbaijani survey vessels contracted by BP to leave the Alov-Araz-Sharg field, a site that Azerbaijan claimed was well within its national sector, but disputed by Iran. It seems unlikely Russia and Iran would stand idly by as trans-Caspian pipelines, which exclude them, are constructed.

The West's greatest Caspian success is Azeri production. Over the last decade and a half, Baku gradually extricated itself from using the remnants of Soviet-era pipelines. While initially relying on Transneft's Baku-Novorossiisk pipeline, in 1999 Baku's export options broadened with the opening of the $600 million, 515-mile Baku-Supsa 100,000 barrel-per-day pipeline, which terminated on Georgia's Black Sea coast. Georgia's transit fee of $3 a barrel stood in stark contrast to the $15 per-barrel charge that Russia's Transneft extorted from SOCAR.

Azerbaijan was able to sever its reliance on Russian export facilities when in May 2006 the $3.6 billion, 1,092-mile, 1 million bpd Baku-Tbilisi-Ceyhan pipeline became operational; later this year Baku hopes to increase exports via BTC to 1.2 million bpd.

Farther north, Western investment successes in Kazakhstan have been more mixed. The Caspian Pipeline Corp.'s pipeline opened in 2001 and has a capacity of 700,000 bpd. While Chevron, LUKoil, ExxonMobil, BP, Rosneft, Shell, BG and KazMunaiGas are all CPC partners, the pipeline pumps oil westward from western Kazakhstan and Siberia to Russia's Novorossiisk Black Sea port. For better or for worse, Kazakh energy exports westward are still, and will be for the foreseeable future, under Russian influence.

The unsettling reality for the Western companies dreaming of Caspian riches is that Russia is increasingly dominant in the Caspian and has essentially slowly squeezed them out of the sea's last potential frontier, Turkmenistan. While none of the Caspian producers wants less than world market prices for exports, the current reality is that Russia is the "guardian at the gate" that can make trouble for uppity producers by playing hardball pipeline politics. Besides the political opposition of both Tehran and Moscow to the proposed export facilities, throw in the unsettled legal status of the pipeline transit routes and you have, to use a cliche coined years ago for the region, "pipeline dreams," however many dollars KBR is awarded.

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