
Analysis : US has ally in Azerbaijan

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WASHINGTON, Jan. 18 (UPI) -- In retrospect, 2007 will be remembered as the high-water mark of Washington's attempts to develop the Caspian's post-Soviet hydrocarbon riches. If early 2008 is any indication, then the one remaining friend that America has in the Caspian basin is Azerbaijan. Neither Iran, subject to ongoing U.S. sanctions, nor the Russian Federation have evinced the slightest interest in sharing their oil and natural gas reserves with U.S. companies, while Turkmenistan's resources are locked up for the foreseeable future with Russia and China and Kazakhstan has played hardball with the Western consortium developing Kashagan, wringing out of its nervous joint partners a doubling of Kazakhstan's share in the massive development project. Only Azerbaijan remains as the first and brightest hope of Western efforts to corral Caspian development, a post-Soviet republic still firmly committed to its Western partners.

Azeri interest in maintaining its Western connections amid growing nationalist settlement in the Caspian basin is personified in the recent two-day visit of U.S. Sen. Richard Lugar, R-Ind., head of the Senate Foreign Relations Committee, to Baku. On Jan. 14 Azeri President Ilham Aliyev received Lugar. The Azeri media heavily covered the event and proclaimed, "The head of the state said that bilateral cooperation between U.S. and Azerbaijan are developing successfully in all the fields."

Lugar had a full agenda during his two-day visit: According to the Azeri media, among the topics that Lugar discussed were Washington's appreciation of Azerbaijan's anti-terrorist efforts, bilateral cooperation, the first world war's Armenian "genocide," Nagorno-Karabakh, regional energy cooperation, Azeri elections and Iran's nuclear program.

Perhaps the most notable of Lugar's observations came when, following his discussions with Aliyev, he suggested "George Bush should appoint a special representative on energy issues in the Caspian region. ... The appointment of special representative will be a signal that U.S. regards this region as a priority."

Lugar's comments follow up on a letter that he and fellow Senate Foreign Relations Committee member Joseph Biden, D-Del., sent on Oct. 4 to Secretary of State Condoleezza Rice stressing the need for such a special representative focused on energy issues in the Caspian to safeguard long-term U.S. interests.

In words that doubtless enchanted his Azeri hosts Lugar added, "These long-term interests lie in not allowing Russia to be dominant in the South Caucasus and Central Asia."

The prize is certainly tempting: The Caspian's 143,244 square miles and attendant coastline are estimated to contain as much as 250 billion barrels of recoverable oil, boosted by more than 200 billion barrels of potential reserves, quite aside from up to 328 trillion cubic feet of recoverable natural gas.

Whatever Lugar says, however, the reality is that in the short term Russia effectively "dominates" Kazakh and Turkmen energy exports. Turkmenistan uses the Soviet-era Transneft pipeline monopoly, while Kazakh oil exports currently flow westward through the 938-mile Caspian Pipeline Consortium

joint venture. The CPC pipeline opened in 2001 and has a current capacity of 700,000 barrels per day. 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.

The West's great success is Azeri production, which now sends more than 800,000 barrels per day through both the Baku-Supsa and Baku-Tbilisi-Ceyhan pipelines; BTC is designed to handle up to 1 million bpd and in 2008 Baku is hoping to increase exports up to 1.2 million bpd. In 1994 Azeri President Geidar Aliyev signed the "Contract of the Century" with Western energy concerns to develop Azerbaijan's Caspian Azeri-Chirag-Gunashli fields. In 1997 the Baku-Novorossiisk pipeline opened to export Azeri oil from the black Sea to Western markets, but initial throughput was limited to 40,000 bpd. Two years later Baku's export options broadened with the opening of the \$600 million, 515-mile Baku-Supsa 100,000 bpd pipeline, followed by the inauguration of the \$3.6 billion, 1,092-mile, million-barrel-per-day Baku-Tbilisi-Ceyhan pipeline, which had a capacity of 1 million bpd. The opening of the BTC pipeline allowed Azerbaijan to cut itself adrift from Russia's pipeline monopoly and represented the culmination of Washington's dream of a Caspian export route that bypassed both Russia and Iran.

Since then however, Washington's reveries of controlling Caspian production have run into some nasty geopolitical realities. Last month Iran reiterated its previous position that Caspian offshore waters should be shared equally among coastal nations, setting back for the foreseeable future any definitive division of the Caspian's territory, a crucial element in Washington's strategy of constructing undersea pipelines.

Even worse, Kazakhstan forced its Kashagan partners to rewrite the contracts for production of the massive Caspian offshore field, the world's largest single discovery of the last 30 years. Under the original joint venture agreement Kazakhstan's national hydrocarbon concern KazMunaiGas and Japan's Inpex each held an 8.33 percent share in the project, while ConocoPhillips holds a 9.26 percent share. Four major foreign oil companies that dominated the project -- Italy's Eni, France's Total, U.S. ExxonMobil and Anglo-Dutch Shell - all held 18.52 percent stakes each. Under the new terms, State-run KazMunaiGas will pay \$1.78 billion to increase its share from 8.33 percent to 16.81 percent at the expense of its foreign partners, with Eni, Shell, Total and ExxonMobil seeing their stake drop from 18.52 percent to 16.81 percent, while ConocoPhillips and Inpex will also have "slight" adjustments made to their stakes.

For all of Lugar's calls to action, the appointment of a U.S. "special representative" for Caspian affairs would seem to be a classic case of too little, too late.
