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## Oil in troubled mountains

By Robert M Cutler  
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MONTREAL - The armed conflict between Russian and Georgia has further exposed the fragile position of the energy links running through the smaller country from the Caspian Sea to developed market economies.

Russian forces are placed to disrupt oil flows through the Baku-Tbilisi-Ceyhan (BTC) pipeline, which has carried Caspian Sea oil from Azerbaijan across Georgia to Turkey since 2006, and the Baku-Tbilisi-Erzurum pipeline, which opened last year and exports gas to Turkey, as well as the older Baku-Supsa "early oil" line that runs to the Georgian Black Sea coast.

A fire in eastern Turkey that last week shut down the BT

pipeline, the result of a bomb claimed by the Kurdistan Workers' Party (PKK), has been extinguished, but there will be a three-week delay in lifting Azeri oil from the Turkish terminal at Ceyhanon, on the East Mediterranean coast, as the line is inspected, repaired, and tested.

The Russian troops occupying Georgia, effectively cutting the country in half on Monday as they occupied the town of Gori on the main east-west highway and not far from the BTC pipeline, could easily prevent it reopening on schedule.

Despite the supply disruption, the price of light sweet crude on the New York Mercantile Exchange declined to under US\$114 in electronic trading on Monday, as traders continued to factor in decreased world demand as a result of anticipated economic contraction.

Meanwhile, the Azeri state energy company SOCAR has ceased shipments to the Georgian Black Sea ports of Batumi and Kulevi and will probably declare force majeure to limit its liabilities.

As from Sunday, ships of Russia's Black Sea fleet were blockading Georgia's Black Sea coast, after Russian military planes had bombed and significantly damaged the oil loading terminal at Poti, which serves the Baku-Supsa line that had been used for so-called "early oil" before the BTC entered into service and was being refurbished in view of expanded capacity.

The BTC carries 850,000 barrels per day, or about 1% of world oil consumption. However, as I have recently pointed out [1] it is difficult to underestimate the role of the South Caucasus and Georgia in particular as a transit country for Caspian Sea region energy resources to Europe, circumventing Russia.

In that context, the ongoing Russian invasion of Georgia has little to do with South Ossetia, regardless of Moscow's pretensions to this effect.

The background to the Russian invasion predates Georgian President Mikheil Saakashvili. South Ossetia had already in declared 1989 its secession from the Georgian Soviet Socialist Republic to become its own Soviet republic; in response, the Georgian Supreme Soviet in March 1990 nullified South Ossetia's autonomous status within Georgia.

By early 1991, when in March Soviet Georgia declared its independence, followed the next month by the landslide election of Soviet-era dissent

Zviad Gamsakhurdia as first president of the post-Soviet Republic of Georgia, the three-way military struggle in the region among Georgian, Russian, and Ossetian forces had created tens of thousands of refugees.

Segments of the Russian armed forces had never forgiven USSR president Mikheil Gorbachev's foreign minister and later Georgian president Eduard Shevardnadze for abandoning the decades-long Soviet build-up of military power and implementing the former's foreign policy of rapprochement and conciliation with the West, leading to the disintegration of the Soviet bloc in Europe and the subsequent break-up of the Soviet Union itself.

Still, when Shevardnadze promised in late 1993 that Georgia would become a member of the Commonwealth of Independent States, the post-Soviet Russian military supported him against Gamsakhurdia, who was overthrown and later died in mysterious circumstances that most observers believe to have been suicide.

Shevardnadze ruled without mandate for a few years, was finally elected officially in November 1995, and stayed in power until his resignation in November 2003 in the wake of the Rose Revolution that brought Saakashvili to power.

As a Communist Party apparatchik in the Soviet period, Shevardnadze gained a deserved reputation as an opponent of corruption, but his post-Soviet regime was rife with cronyism as political parties were not well established, leaving him to depend upon patronage powers and clan and family connections. He was not himself a conspicuous profiteer, but it seems much the case that he protected many who were.

It was Shevardnadze, and not Saakashvili, who took the first concrete steps to extricate Georgia from Russia's economic and hence political orbit, reanimating the enmity of the armed forces of the Russian Federation, many of whose leaders were held over from the late Soviet period and kept their animosity alive.

Most notably, Shevardnadze agreed in the 1990s with Azerbaijan's then-president Heidar Aliev to promote construction of the Baku-Tbilisi-Ceyhan pipeline.

The BTC remains the only pipeline that circumvents Russia to transport Caspian Sea energy resources to third countries. A Kazakhstan-China oil pipeline does not originate near the Caspian and the two countries share the border that it crosses.

Saakashvili reinvigorated anti-corruption policies (from firing traffic police for extortion to sending university exam papers overseas for grading to avoid bribery), which in the economic realm had the effect also of making conditions easier for small and medium-sized enterprises.

His relatively young and often Western-trained team overcame numerous obstacles, such as a Russian embargo on imports of Georgian wine (a major foreign exchange earner on the Russian market), imposed winter-time energy embargoes (Russian firms control energy pipelines feeding Georgia as well as electricity transmission lines in the country), and the like, to put the country at least on a road towards prosperity.

Thus while the Russian ruble and equity market indices fell sharply on Friday at the beginning of hostilities and continued lower on Monday, Georgia's Prime Minister and former ABN AMRO banker Lado Gurgenidze went out of his way to reassure ratings agencies, holding a conference call and personally emailing relevant parties.

Even so, Fitch and Standard & Poor's downgraded Georgian government bonds, notwithstanding Tbilisi's assurance that there would be no default, and the Georgia's 2012 Eurobond dropped over 5%.

The Russian markets rebounded slightly when Russian President Dmitry Medvedev released a statement that the military conflict may be in its end phase, somewhat calming foreign investors, but there is a general and well-founded impression that Russia just does not care as much about foreign investment as Georgia.

The Russian invasion is not about South Ossetia. It is about regime change in Tbilisi, reimposing a 19th-century sphere of influence in the South Caucasus, limiting the autonomy of the countries there, and through all these devices maintaining control of energy transmission lines to the West.

Note 1. See Caspian pipelines ease Russia's grip ([http://www.atimes.com/atimes/Central\\_Asia/JG08Ag01.html](http://www.atimes.com/atimes/Central_Asia/JG08Ag01.html)) , Asia Times Online, July 8, 2008, on natural gas from Turkmenistan.

See Ukraine clash threatens oil to Europe ([http://www.atimes.com/atimes/Central\\_Asia/JH02Ag01.html](http://www.atimes.com/atimes/Central_Asia/JH02Ag01.html)), Asia Times Online, August 2, 2008, on oil from Kazakhstan.

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