
Caspian Pipelines Ease Russia's Grip

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MONTREAL - New prospects for a Trans-Caspian Gas Pipeline (TCGP) from Turkmenistan to Azerbaijan have been receiving deserved attention in recent months. However, another project to pipe energy resources from the western to the eastern shore of the Caspian Sea also demands attention, with implications that loom as large as those of the TCGP.

This is an overland oil pipeline that Kazakhstan intends to build from the Tengiz field, in the northwest of the country, to the port of Aqtau in the southwest.

The country's national oil and gas company, KazMunaiGaz, the Agip KCO consortium developing the offshore Kashagan deposit and the TengizChevrOil joint venture agreed after long discussions to a first memorandum of understanding in January 2007. Before that, an earlier variant would have seen the oil transshipped to

[lg.php?bannerid=67&campaignid=47&zoneid=36&loc=http%3A%2F%2Fwww.atimes.com%2Ffatimes%2FCentral_Asia%2FJG08Ag01.html&referer=http%3A%2F%2Fnews.google.com%2Fnews%3Fhl%3Den%26tab%3Dwn%26ned%3Dus%26ie%3DISO-8859-1%26q%3Dblack+sea&cb=831ceb5fd1] Mahachkala, Dagestan, in the Russian Federation, for the pipeline ending at Novorossiisk on the Black Sea. This appears to be no longer under consideration.

At present, about four-fifths of Kazakhstan's oil has nowhere to go but through Russia's pipeline system. Half of the rest is exported through the Georgian Black Sea port of Batumi, the seaside capital of the formerly rebellious Georgian province of Ajaria. The other half of the rest goes to China, which wishes to quadruple its oil imports from Kazakhstan from 100,000 to 400,000 barrels per day (bpd) by the end of the decade, although Kazakhstan, perhaps because of its experience with Russia, is hesitating at the prospect.

So Kazakhstan is now engaged in constructing a 730 kilometer, 500,000 bpd pipeline from Eskene, in the west, to the port of Kuryk, near Aqtau. The volume is to be increased in subsequent stages to between 750,000 and 1.2 million bpd. This pipeline, provisionally estimated to cost US\$3 billion, will be the main section of a projected Kazakhstan Caspian Transportation System (KCTS).

Kazakhstan intends by using the KCTS to decrease its dependence upon the pipeline of the Caspian Pipeline Consortium (CPC), which after crossing the border runs entirely within southern Russia to Novorossiisk on the Black Sea. Original commitments by Russia to expand CPC pipeline volume have not been realized, despite public promises made in joint press conferences by Vladimir Putin, when he was president, standing next to Kazakhstan's President Nursultan Nazarbaev in Astana.

A new export terminal was opened this May at Kulevi, on the Georgian Black Sea coast near Poti, where the Baku-Supsa pipeline for "early oil" from Azerbaijan ran in the 1990s up until last year, when it closed for refurbishing. Kulevi, which can also receive oil delivered by railcar, will begin by handling about 100,000 bpd of new oil from Azerbaijan. That capacity can be doubled by the end of the decade, and then conceivably doubled again as necessary to handle oil from Kazakhstan.

Potential export terminals on Georgia's Black Sea coast include the now-refurbished port at Batumi. From any or all of these ports, tankers may take Azerbaijani and/or Kazakhstani oil to Odessa over the Black Sea for insertion into the Odessa-Brody pipeline (OBP). It had originally been intended to run the OBP from east to west with Kazakhstani oil, but Russia did not allow this: it now carries Russian oil from west to east.

The Brody-Plock spur was not judged economically feasible earlier in the decade. Price rises for petroleum products have since changed that. From Brody Kazakhstan's oil could continue through a pipeline long under consideration but never yet built, to Plock, whence an existing pipeline extends to the port of Gdansk.

It is not clear yet whether the oil itself will come from Tengiz or from the offshore Kashagan deposit. First production from the latter has now been pushed back to 2010-2011, about the time the new pipeline should enter into service. Yet despite Kazakhstan's consternation over the delay, there are very real technical and geophysical issues that make tapping the Kashagan deposit extremely sensitive.

Basically, there is a large dome of natural gas overlaying a huge deposit of crude petroleum, all housed under extreme pressure under an immense salt dome. Kazakhstani law does not permit the gas to be flared or otherwise to escape; rather, it must be recaptured for domestic use. The gas could also be exported southwards towards Turkmenistan, where it could join gas from Ashgabat in an undersea trans-Caspian link to Azerbaijan, eventually entering feeder pipelines to Europe without having to pass through the Russian system. Discussions between Turkmenistan and Azerbaijan to realize the bilateral project are reportedly well under way.

For many years, Russia used promises and cajoling to discourage Kazakhstan from signing a trans-Caspian agreement. It was also planned to more than double the volume of the CPC pipeline from 615,000 to nearly 1.3 million bpd. The failure to accomplish this is due partly to internal Russian bureaucratic and inter-regional squabbling and partly to the inability or unwillingness of the Russian presidency to overcome those disagreements. Regardless of the reason, the result is the same for Kazakhstan.

Recently, Gazprom offered to buy natural gas from Azerbaijan at market prices. Azerbaijan must feel the same way Kazakhstan does about Russia in this respect, because the offer was refused. Events - and not least the rise in the price of oil making more possibilities economically feasible - have begun to accelerate the overtaking of Russia's near-monopoly on transport of Caspian Sea basin energy resources.
