

Great Power Politics and the Azerbaijan Oil Pipeline

Jul 18, 1995



Brief Analysis

On July 18, 1995, Terence Adams, president of the Azerbaijan International Operating Company (AIOC), and Gregory Rich, president of the AIOC Pipeline Group, addressed a session of The Washington Institute's Policy Forum on the energy potential of the Caspian Sea region and efforts to extract and export Azerbaijan's oil and gas resources. The following is a rapporteur's summary of their remarks.

Azerbaijan's Resource Base

Azerbaijan's offshore oil reserves are substantial. It has proven reserves of fourteen billion barrels of oil (further development could more than double this number) and it will be able to deliver more than one million barrels per day (bpd) within the next decade. With its enormous oil resources, Azerbaijan will enter the world oil market at a time when the main oil reserves of the West are declining and global demand is rising. This could make Azerbaijan a major oil exporting country and international player.

Pipeline Issues

To unlock this potential, a pipeline to the West is necessary. AIOC has developed a staged investment plan to bring the Caspian Sea's oil to market. A short-term pipeline, which will operate for up to eight years, will carry 80,000 bpd and will be mainstream by mid-1997. It will earn early income for the project and provide critically needed oil for Azerbaijan. The long-term goal of full field development is 300,000 bpd by 2004, and 700,000 bpd by 2010. The short-term pipeline route must be selected by October, while the long-term pipeline route will be decided in two years. AIOC hopes to have the regional pipeline functioning by 2004, but this depends on the resolution of regional conflicts and various issues relating to the construction of the pipeline. Early oil, not the regional pipeline, is the main issue now on the agenda. Short term pipeline choices, however, will not influence long-term pipeline options.

Early Oil

Early oil will be exported via existing pipelines in the region, and the choice of pipelines will be determined primarily by commercial considerations. Three possible routes exist: through Russia (the northern route), through Georgia (the western route), and through Iran (the southern route).

Russia

The Russian pipeline route runs from Baku to Novorossiysk. The Russians have encouraged AIOC to consider this option and have offered priority access for export. This route is also being touted by Lukoil/Transneft. Furthermore, Baku realizes that cooperating with Russia would contribute to the peace process with Armenia. However, this pipeline would not be operated by AIOC, but by Transneft, which AIOC sees as a disadvantage. Security is also an issue because of the recent fighting in Chechenya, but the situation is comparable to that in Georgia and can be managed. Iran is a factor; having been cut out of the pipeline negotiations, it could try to disrupt efforts to export Azerbaijani oil through Russia.

Georgia

Although the Georgia pipeline, which runs from Baku to Supsa, is in a decrepit state, it can be repaired and upgraded. This pipeline, under the control of AIOC, would open a logistical corridor between the Black Sea and the Caspian. The Georgia route suits Western interests, and the World Bank is encouraging investment in this pipeline for the benefit of both the Georgians and the Azeris. The downside to the Georgia pipeline is that, besides not having much regional support, it will need Russian consent to work. Lukoil prefers the northern pipeline option because they see it as giving them an advantage regarding the selection of future pipeline routes.

Iran

The southern route would entail shipping Baku crude oil to the Iranian port of Bander-e-Anzali and then feeding it into the main Tehran/Tabriz pipeline. This option would be a potential win-win situation, since it would give AIOC the hard currency it needs for its investments and Iran the crude oil it needs for its Northern provinces, where most of its population lives, reducing the transportation costs of bringing in oil from the south. However, the Iranian route was rejected and negotiations were suspended because some members of the consortium objected.

Thus, of the two viable options - the Russian (northern) and Georgian (western) routes - all things being equal, the geopolitics of the Caspian region suggest a bias favoring the northern route.

Long-term Oil Options

With over one million bpd of oil potentially coming out of Azerbaijan, and even more coming out of Kazakhstan, Turkmenistan, and Iran, the volume of oil that the Caspian region is capable of producing is considerable. As with the early oil, the key to long-term oil exports is to get the oil to market in the West. The Russians favor Black Sea transshipment. However, the Turkish government is concerned about the potential environmental impact of this option - in particular, the impact of oil spills on its economy and tourist industry.

Because of the environmental risks and the wastage inherent in transshipment, AIOC prefers an overland pipeline route, exiting through the port of Ceyhan in Turkey. An overland pipeline, however, will require the resolution of outstanding regional security issues. AIOC hopes that the economic interests of the parties will eventually move them to resolve their political differences, enabling one of the proposed pipeline options to go forward.

This special Policy Forum report was prepared by Melissa Vinitzky. ❖

Policy #158

RECOMMENDED

BRIEF ANALYSIS

[Unpacking the UAE F-35 Negotiations](#)

Feb 15, 2022



Grant Rumley

(/policy-analysis/unpacking-uae-f-35-negotiations)



ARTICLES & TESTIMONY

[How to Make Russia Pay in Ukraine: Study Syria](#)

Feb 15, 2022



Anna Borshchevskaya

(/policy-analysis/how-make-russia-pay-ukraine-study-syria)



BRIEF ANALYSIS

[Bennett's Bahrain Visit Further Invigorates Israel-Gulf Diplomacy](#)

Feb 14, 2022



Simon Henderson

(/policy-analysis/bennetts-bahrain-visit-further-invigorates-israel-gulf-diplomacy)